

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Traverse City	County Grand Traverse
Fiscal Year End June 30, 2007	Opinion Date December 13, 2007	Date Audit Report Submitted to State December 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

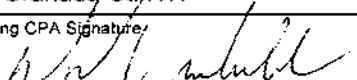
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Vredeveld Haefner LLC		Telephone Number 616-446-7474	
Street Address 4001 Granada Ct, NW		City Grand Rapids	State MI
Zip 49534			
Authorizing CPA Signature 	Printed Name Douglas J. Vredeveld	License Number 21289	

# **CITY OF TRAVERSE CITY, MICHIGAN**



## **FINANCIAL STATEMENTS**

**For the Fiscal Year Ended  
June 30, 2007**

# CITY OF TRAVERSE CITY, MICHIGAN

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# **CITY OF TRAVERSE CITY, MICHIGAN**

## **List of Elected and Appointed Officials For the Fiscal Year Ended June 30, 2007**

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### **Elected Officials**

Mayor	Linda Smyka
Mayor Pro Tem	Scott Hardy
Commission Member	Ralph Soffredine
Commission Member	Christopher Bzdok
Commission Member	Matt Schmidt
Commission Member	Jody Bergman
Commission Member	Deni Scrudato

### **Appointed Officials**

Manager	Richard I. Lewis
Clerk	Debbra A. Curtiss
Attorney	Karrie Zeits
Treasurer	William E. Twietmeyer



*Vredeveld Haefner LLC*

CPA's and Consultants

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## INDEPENDENT AUDITORS' REPORT

December 13, 2007

Honorable Mayor and  
Members of the City Commission  
City of Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Traverse City, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Traverse City Housing Commission discrete component unit, which represents 4.3% and 5.3%, respectively of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Traverse City Housing Commission discrete component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Traverse City as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-12 and the pension information on page 67 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Oredaold Haefner LLC*



## Management's Discussion and Analysis

As management of the *City of Traverse City, Michigan* (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007.

### Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$88,414,714 (*net assets*). Of this amount, \$15,634,101 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net assets increased by \$2,019,450.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22,707,738, an increase of \$759,820 in comparison with the prior year.
- At the end of the current fiscal year unreserved and undesignated fund balance for the General Fund was \$3,871,556 or 28 percent of total General Fund expenditures and transfers out.
- The City's total long-term debt had a net decrease of \$853,422 due to payments on current debt. In addition, the City advance refunded the Downtown Development Series 2002A General Obligation Bonds with the Downtown Development Series 2007A General Obligation Bonds. The City advance refunded the 2002A series bonds to reduce its total debt service payments over the next 21 years by almost \$596,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$717,334.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of the costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and recreation and culture. The business-type activities of the City include wastewater, water, marina and auto parking system..

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate component units of the City – the Downtown Development Authority, Traverse City Light and Power and The Traverse City Housing Commission. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. Copies of the full audit reports of these component units are available upon request.

## **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

***Governmental funds.*** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains thirty-one individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Streets, Local Streets, Public Improvement, and Brown Bridge Trust Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general, special revenue, debt service and capital project funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

***Proprietary funds.*** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater, water, marina and auto parking system operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its municipal garage and employee health benefit activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater, water, marina, and auto parking system, each of which are considered to be major funds of the City.

***Fiduciary Funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide statement because the resources of those funds are not available to support the City of Traverse City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## **Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds is presented following the notes to the financial statements.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve as a useful indicator of a government's financial position. In the case of the City of Traverse City, assets exceeded liabilities by \$88,414,714 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets \$59,634,607 or 67 percent reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The balance of *unrestricted net assets* \$15,634,101 or 18 percent or may be used to meet the government's ongoing obligations to citizens and creditors. The remaining balance of net assets is restricted net assets \$13,146,006 or 15% represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the governmental and business type activities.

During the current fiscal year the government's net assets increased by \$2,019,450.

The City's net assets and changes in net assets are summarized in the following tables.

**City of Traverse City's Net Assets**  
**Table 1**

	<b>2007</b>			<b>2006</b>		
	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>	<b><u>Total</u></b>	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>	<b><u>Total</u></b>
Current and other assets	\$ 28,778,436	\$ 3,733,882	\$ 32,512,318	\$27,419,942	\$3,978,234	\$ 31,398,176
Capital assets	<u>36,064,668</u>	<u>52,304,208</u>	<u>88,368,876</u>	<u>35,844,183</u>	<u>52,682,009</u>	<u>88,526,192</u>
Total assets	<u>64,843,104</u>	<u>56,038,090</u>	<u>120,881,194</u>	<u>63,264,125</u>	<u>56,660,243</u>	<u>119,924,368</u>
Long-term liabilities outstanding	11,270,596	17,392,609	28,663,205	11,670,942	19,693,020	31,363,962
Other liabilities	<u>1,493,828</u>	<u>2,309,447</u>	<u>3,803,275</u>	<u>1,046,575</u>	<u>1,118,567</u>	<u>2,165,142</u>
Total liabilities	<u>12,764,424</u>	<u>19,702,056</u>	<u>32,466,480</u>	<u>12,717,517</u>	<u>20,811,587</u>	<u>33,529,104</u>
Net assets						
Invested in capital assets, net of related debt	25,865,554	33,769,053	59,634,607	25,645,068	33,042,821	58,687,889
Restricted assets	13,063,009	82,997	13,146,006	10,390,106	211,264	10,601,370
Unrestricted	<u>13,150,117</u>	<u>2,483,984</u>	<u>15,634,101</u>	<u>14,511,434</u>	<u>2,594,571</u>	<u>17,106,005</u>
<b>Total net assets</b>	<b><u>\$ 52,078,680</u></b>	<b><u>\$36,336,034</u></b>	<b><u>\$ 88,414,714</u></b>	<b><u>\$50,546,608</u></b>	<b><u>\$35,848,656</u></b>	<b><u>\$ 86,395,264</u></b>

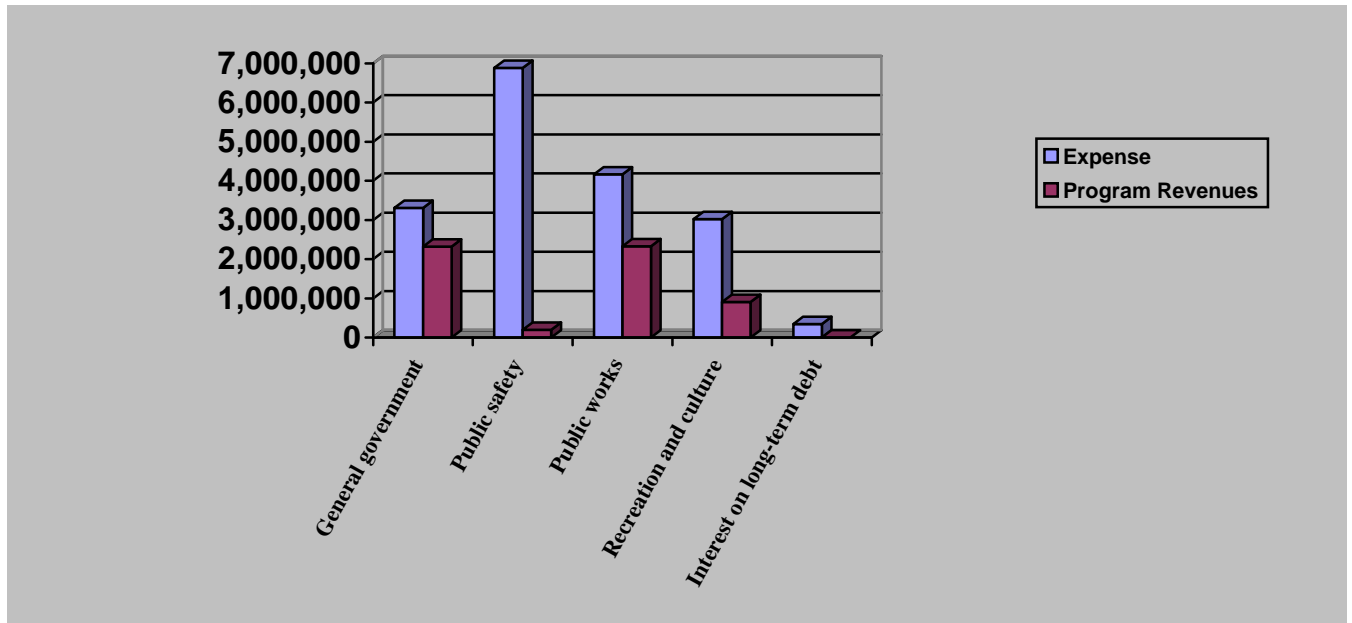
**City of Traverse City's Changes in Net Assets**  
**Table II**

	<b>2007</b>			<b>2006</b>		
	<b>Governmental Activities</b>	<b>Business type Activities</b>	<b>Total</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Program revenue						
Charges for services	\$ 2,785,035	\$ 8,898,726	\$11,683,761	\$ 2,963,458	\$ 8,396,930	\$ 11,535,388
Operating grants and contributions	2,056,424	-	2,056,424	2,243,175	-	2,243,175
Capital grants and contributions	907,994	10,000	917,994	1,532,262	-	1,532,262
General revenue						
Property taxes	9,814,651	-	9,814,651	9,716,965	-	9,716,965
Grants and contributions not restricted to specific programs	1,355,224	-	1,355,224	1,394,405	-	1,394,405
Franchise Revenue	181,744	-	181,744	183,036	-	183,036
Other	<u>2,149,121</u>	<u>(167,212)</u>	<u>1,981,909</u>	<u>908,839</u>	<u>165,881</u>	<u>1,074,720</u>
Total revenue	<u>19,250,193</u>	<u>8,741,514</u>	<u>27,991,707</u>	<u>18,942,140</u>	<u>8,562,811</u>	<u>27,504,951</u>
Expenses						
General government	3,308,120	-	3,308,120	3,076,544	-	3,076,544
Public safety	6,887,408	-	6,887,408	6,588,323	-	6,090,727
Public works	4,164,211	-	4,164,211	4,039,429	-	4,039,429
Recreation and culture	3,018,986	-	3,018,986	2,865,797	-	2,865,797
Interest and fiscal charges	339,396	-	339,396	566,130	-	566,130
Wastewater	-	4,618,069	4,618,069	-	4,481,223	4,481,223
Water	-	2,070,064	2,070,064	-	2,043,726	2,043,726
Marina	-	560,754	560,754	-	522,604	522,604
Auto Parking	<u>-</u>	<u>1,005,249</u>	<u>1,005,249</u>	<u>-</u>	<u>949,966</u>	<u>949,966</u>
Total expenses	<u>17,718,121</u>	<u>8,254,136</u>	<u>25,972,257</u>	<u>17,136,223</u>	<u>7,997,519</u>	<u>25,133,742</u>
Increase in net assets	1,532,072	487,378	2,019,450	1,805,917	565,292	2,371,209
Net assets – beginning of year, as restated	<u>50,546,608</u>	<u>35,848,656</u>	<u>86,395,264</u>	<u>48,740,691</u>	<u>35,283,364</u>	<u>84,024,055</u>
<b>Net assets – end of year</b>	<b><u>\$52,078,680</u></b>	<b><u>\$36,336,034</u></b>	<b><u>\$88,414,714</u></b>	<b><u>\$50,546,608</u></b>	<b><u>\$35,848,656</u></b>	<b><u>\$ 86,395,264</u></b>

**Governmental activities.** Governmental activities increased the City's net assets by \$1,532,072, accounting for about three quarters of the growth in the net assets of the City. Key highlights are as follows:

- Unrestricted investment earnings increased \$811,477 compared to the previous year, because of unrealized losses recorded in 2006 that did not occur in 2007 and an overall increase in yield on investments over prior year.

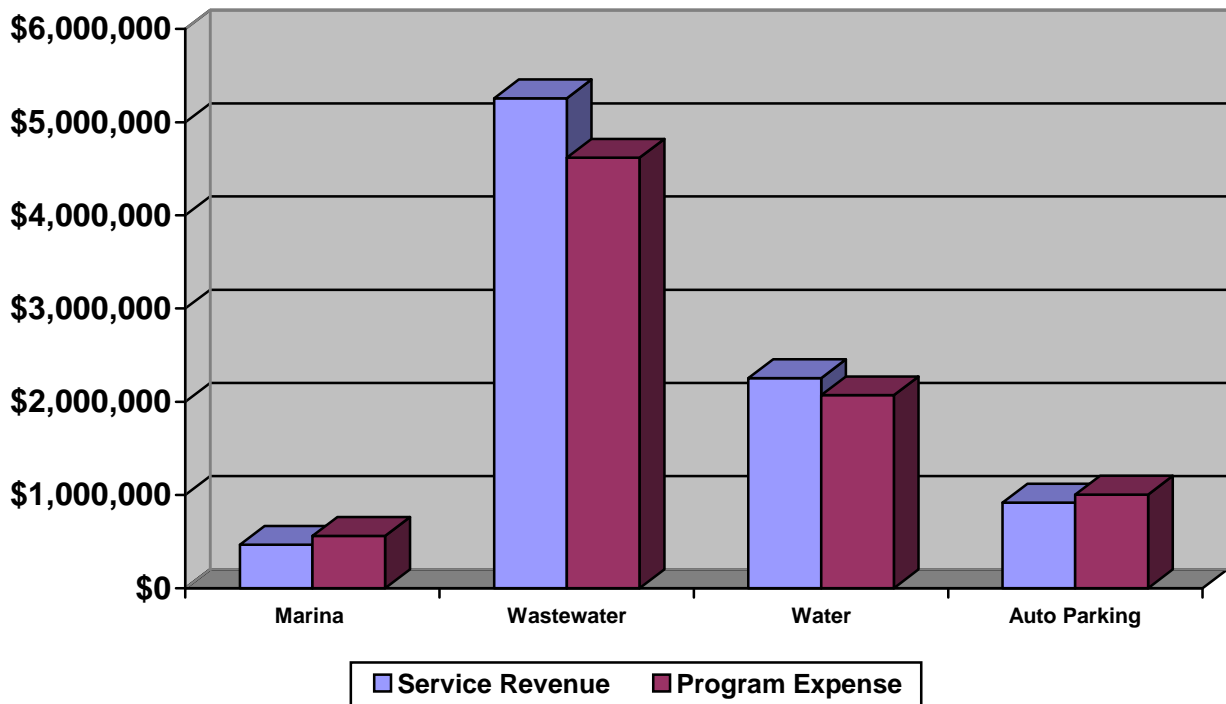
## Expenses and Program Revenues – Governmental Activities



**Business-type activities** increased the City's net assets by \$487,378, accounting for one fourth of the growth in the government's net assets for the current year. Key highlights of activities in the funds are as follows:

- The Auto Parking System implemented a new parking ticket software program in February 2007. In conjunction with the implementation of the new software program the collection function of the parking tickets was transferred from the City Treasurer's office to the Parking Violations Bureau, operated by the Downtown Development Authority. In addition, the Auto Parking System began issuing tickets on Saturday, which did not occur in the prior year resulting in an increase in parking ticket revenues.
- Charges for services in the Wastewater and Water Fund increased approximately \$355,000 because of higher consumption by customers.

## Expenses and Program Revenues - Business-type Activities



### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22,707,738, an increase of \$759,820 in comparison with the prior year. \$5,787,202 constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$3,871,556. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 28 percent of total General Fund expenditures including transfers out.

The fund balance of the City's General Fund increased by \$281,266 during the current fiscal year. This is primarily attributed to higher interest earnings than expected of \$80,967 and a reduction in the amount of transfers, approximately \$80,000 to the Major Street Fund.

The Major Street Fund has a total fund balance of \$196,522 which decreased by \$69,111 during the year. Original budget estimates anticipated a reduction to fund balance due to various maintenance activities.

The Local Street Fund has a fund balance for the current year of \$0. All expenses not covered by state sources are covered by the General Fund via a transfer of funds.

The Public Improvement Fund increased by \$25,513 during the current fiscal year. This is primarily attributed to the expenditures being funded by various local, state and federal grants and a transfer in from the General Fund.

The Brown Bridge Trust Fund increased by \$663,506 during the current fiscal year. This is primarily attributed to higher than anticipated interest revenues and royalty revenues received during the year.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government -wide financial statements, but in more detail.

Unrestricted net assets of the Wastewater, Water, Marina and Auto Parking System Funds at the end of the year amounted to \$2,473,775, with capital assets net of related debt of \$33,769,053. The Wastewater Fund had an increase of \$468,578, the Water Fund had an increase in net assets for the year of \$128,227, the Marina Fund decreased \$31,090, and the Auto Parking System had a decrease in net assets of \$59,466.

### **General Fund Budgetary Highlights**

During the year, General Fund revenues were over budgetary estimates by \$167,617 because of higher than anticipated interest earnings and reimbursement revenue. In addition, actual expenditures were under budgetary estimates by \$562,738. This is a result of management recommending and the City Commission adopting a conservative budget. As a result, the fund balance increased by \$281,266, against the budgeted loss estimate of \$481,950.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$88,368,876 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, and bridges.

Major capital asset events during the current fiscal year included the following:

- Improvements to Woodmere Avenue, in the approximate amount of \$111,000.
- A capital contribution was made in the amount of \$215,000 from the Downtown Development Authority TIF 97 Special Revenue Fund to the City Opera House Funds. The contribution was used for capital improvements to the Opera House.
- The City purchased land in the in the approximate amount of \$136,000 as a result from the City of Traverse City v Incochee Woods Development LLC lawsuit.
- During the year the Morgan Farms Booster Station was completed with approximate current year construction costs of \$200,000 .
- The City completed the storm water reconditioning project, which cost approximately \$431,000. The project was partially funded by federal and state grants.
- Improvements were made to the Wastewater Treatment Plant and sewer mains in the amount of \$212,000 and \$265,000, respectively.
- Substantial completion of improvements made to parking Lot K in the approximate amount of \$157,000.



**City of Traverse City's Capital Assets**  
**(net of depreciation)**  
**Table III**

	<b>2007</b>			<b>2006</b>		
	<b>Governmental Activities</b>	<b>Business type Activities</b>	<b>Total</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Land	\$11,407,514	\$ 586,914	\$11,994,428	\$11,270,613	\$ 586,920	\$11,857,527
Land improvement	2,737,398	8,431,562	11,168,960	2,712,123	8,431,562	11,143,685
Buildings and systems	9,182,330	26,459,856	35,642,186	9,490,147	26,200,715	35,690,862
Construction in progress	45,048	246,718	291,766	-	855,005	855,005
Equipment	5,884,925	6,302,833	12,187,758	5,433,948	6,056,184	11,490,132
Infrastructure and other improvements	<u>6,807,453</u>	<u>10,276,325</u>	<u>17,083,778</u>	<u>6,937,352</u>	<u>10,551,629</u>	<u>17,488,981</u>
<b>TOTAL</b>	<b><u>\$36,064,668</u></b>	<b><u>\$52,304,208</u></b>	<b><u>\$88,368,876</u></b>	<b><u>\$35,844,183</u></b>	<b><u>\$52,682,009</u></b>	<b><u>\$88,526,192</u></b>

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt and lease payables of \$29,225,978. Of this amount, \$10,740,233 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents capital leases and bonds secured solely by specified revenue sources (i.e., revenue bonds).

**City of Traverse City's Outstanding Debt**  
**General Obligation and Revenue Bonds**  
**Table IV**

	<b>2007</b>			<b>2006</b>		
	<b>Governmental Activities</b>	<b>Business type Activities</b>	<b>Total</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
General obligation bonds –						
Hardy Parking Deck	\$10,740,233	\$ -	\$10,740,233	\$10,940,000	\$ -	\$ 10,940,000
Lease payable –						
Wastewater Treatment Plant	-	17,160,745	17,160,745	-	18,139,188	18,139,188
Revenue bonds – Water Plant	<u>-</u>	<u>1,325,000</u>	<u>1,325,000</u>	<u>-</u>	<u>1,500,000</u>	<u>1,500,000</u>
<b>TOTAL</b>	<b><u>\$10,740,233</u></b>	<b><u>\$18,485,745</u></b>	<b><u>\$29,225,978</u></b>	<b><u>\$10,940,000</u></b>	<b><u>\$19,639,188</u></b>	<b><u>\$ 30,579,188</u></b>

- The City's total debt overall decreased by \$853,422 after payments during the current fiscal year and an advance refunding on the 2002A Downtown Development General Obligation Bond. The City has a "AAA" rating from Fitch and Standard and Poors for the Long-Term General Obligation Bond issue for the parking deck.
- State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$90,351,144, which is significantly in excess of the City's outstanding general obligation debt.

## **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2007-08 fiscal year:

- Assuming the statutory portion of State Revenue Sharing will remain in place.
- 76% of budgeted General Fund expenditures is personnel costs resulting in an increase of budgeted expenditures in the amount of \$405,000 because of expected wage increases and related fringe benefit costs.
- The closing of the Zoo was done one year earlier than expected. Maintenance and other costs in the final closing of the zoo has been absorbed into the Parks and Recreation Fund.
- Anticipating a higher transfer to Major and Local Streets as the State's gasoline tax is not covering current expenditures.
- An expected increase in the Wastewater, Water, and Marina rates to assure they cover the costs of inflation, operations and the aggressive capital improvements needed to maintain the infrastructure.

During the current fiscal year, unreserved and undesignated fund balance in the General Fund totaled \$3,909,056. The City has appropriated \$37,500 of this amount for spending in the 2007-08 fiscal year budgets. Such appropriations are intended to finance part of various capital acquisitions and improvements, to which the General Fund contributes.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, Richard Lewis, 400 Boardman Avenue, Traverse City, Michigan 49684.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Net Assets**  
**June 30, 2007**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 6,834,666	\$ 2,590,077	\$ 9,424,743
Investments	18,584,796	506,294	19,091,090
Receivables, net	1,834,516	1,128,809	2,963,325
Due from component unit	260,566	-	260,566
Advances to primary government	-	-	-
Internal balances	933,430	(933,430)	-
Inventories	138,923	134,128	273,051
Prepaid items and other assets	191,539	25,007	216,546
Restricted assets	-	282,997	282,997
Capital assets not being depreciated	13,060,865	9,265,194	22,326,059
Capital assets being depreciated	23,003,803	43,039,014	66,042,817
<b>Total assets</b>	<b>64,843,104</b>	<b>56,038,090</b>	<b>120,881,194</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	1,149,488	405,633	1,555,121
Unearned revenue	66,186	-	66,186
Due to primary government	-	-	-
Advances from component units	71,516	750,000	821,516
Long-term liabilities			
Due within one year	206,638	1,153,814	1,360,452
Due in more than one year	11,270,596	17,392,609	28,663,205
<b>Total liabilities</b>	<b>12,764,424</b>	<b>19,702,056</b>	<b>32,466,480</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	25,865,554	33,769,053	59,634,607
Restricted for			
Debt service	8,881	82,997	91,878
Capital projects	1,181,137	-	1,181,137
Budget stabilization	741,460	-	741,460
Rate stabilization	-	-	-
Expendable McCauley Estate trust	97,284	-	97,284
Tax increment finance districts	-	-	-
Housing choice voucher program	-	-	-
Nonexpendable brown bridge trust	10,461,996	-	10,461,996
Nonexpendable cemetery perpetual trust	572,251	-	572,251
Unrestricted	13,150,117	2,483,984	15,634,101
<b>Total net assets</b>	<b>\$ 52,078,680</b>	<b>\$ 36,336,034</b>	<b>\$ 88,414,714</b>

The accompanying notes are an integral part of these financial statements.

Component Units		
Downtown Development Authority	Light and Power	Housing Commission
\$ 1,713,604	\$ 9,377,074	\$ 237,207
-	10,953,217	159,195
2,889,633	4,261,639	27,200
-	-	-
-	821,516	-
-	-	-
-	1,038,644	-
1,854	13,934	30,812
-	622,595	207,761
-	2,050,187	297,665
-	32,555,872	2,021,818
<b>4,605,091</b>	<b>61,694,678</b>	<b>2,981,658</b>
5,544	2,322,756	108,897
-	-	2,481
-	243,700	16,866
-	-	-
-	-	-
55,416	369,545	4,651
<b>60,960</b>	<b>2,936,001</b>	<b>132,895</b>
-	34,606,059	2,319,483
-	-	-
-	-	-
-	-	-
-	622,595	-
-	-	-
4,338,970	-	-
-	-	195,995
-	-	-
-	-	-
205,161	23,530,023	333,285
<b>\$ 4,544,131</b>	<b>\$ 58,758,677</b>	<b>\$ 2,848,763</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>					
Governmental activities					
General government	\$ 3,308,120	\$ 1,297,763	\$ 451,519	\$ 571,661	\$ (987,177)
Public safety	6,887,408	37,901	83,576	72,860	(6,693,071)
Public works	4,164,211	669,616	1,391,887	263,473	(1,839,235)
Recreation and culture	3,018,986	779,755	129,442	-	(2,109,789)
Interest and fiscal charges	339,396	-	-	-	(339,396)
Total governmental activities	<u>17,718,121</u>	<u>2,785,035</u>	<u>2,056,424</u>	<u>907,994</u>	<u>(11,968,668)</u>
Business-type activities					
Wastewater	4,618,069	5,257,474	-	-	639,405
Water	2,070,064	2,254,599	-	10,000	194,535
Marina	560,754	466,472	-	-	(94,282)
Autoparking	1,005,249	920,181	-	-	(85,068)
Total business-type activities	<u>8,254,136</u>	<u>8,898,726</u>	<u>-</u>	<u>10,000</u>	<u>654,590</u>
<b>Total primary government</b>	<u><b>\$ 25,972,257</b></u>	<u><b>\$ 11,683,761</b></u>	<u><b>\$ 2,056,424</b></u>	<u><b>\$ 917,994</b></u>	<u><b>\$ 11,314,078</b></u>
<b>Component units</b>					
Downtown Development Authority	\$ 1,555,416	\$ 579,894	\$ 1,486,112	\$ -	\$ 510,590
Light and Power	26,871,993	30,434,640	236,714	-	3,799,361
Housing Commission	1,916,886	441,895	1,344,004	177,218	46,231
<b>Total component units</b>	<u><b>\$ 30,344,295</b></u>	<u><b>\$ 31,456,429</b></u>	<u><b>\$ 3,066,830</b></u>	<u><b>\$ 177,218</b></u>	<u><b>\$ 4,356,182</b></u>

Continued...

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

<b>Functions/Programs</b>	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Changes in net assets</b>			
Net (expense) revenue	\$ (11,968,668)	\$ 654,590	\$ (11,314,078)
General revenues			
Unrestricted property taxes	9,814,651	-	9,814,651
Restricted property taxes for tax increment finance districts	-	-	-
Grants and contributions not restricted to specific programs	1,355,224	-	1,355,224
Franchise revenue	181,744	-	181,744
Unrestricted investment earnings	1,633,745	196,164	1,829,909
Gain on sale of capital assets	148,714	-	148,714
Transfers	363,376	(363,376)	-
Contribution to endowment	3,286	-	3,286
Special item	-	-	-
Total general revenues, contributions and special item	<u>13,500,740</u>	<u>(167,212)</u>	<u>13,333,528</u>
Change in net assets	1,532,072	487,378	2,019,450
Net assets, beginning of year, as restated	<u>50,546,608</u>	<u>35,848,656</u>	<u>86,395,264</u>
<b>Net assets, end of year</b>	<b><u>\$ 52,078,680</u></b>	<b><u>\$ 36,336,034</u></b>	<b><u>\$ 88,414,714</u></b>

The accompanying notes are an integral part of these financial statements.

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Component Units		
Downtown Development Authority	Light and Power	Housing Commission
\$ 510,590	\$ 3,799,361	\$ 46,231
65,641	-	-
1,460,779	-	-
-	-	-
-	-	-
5,778	1,033,339	18,735
-	-	-
-	-	-
-	-	-
-	(1,590,802)	-
1,532,198	(557,463)	18,735
2,042,788	3,241,898	64,966
2,501,343	55,516,779	2,783,797
<b>\$ 4,544,131</b>	<b>\$ 58,758,677</b>	<b>\$ 2,848,763</b>

Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Public Improvement</u>	<u>Brown Bridge Trust Fund</u>
<b>ASSETS</b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 384,767	\$ 17,305	\$ -	\$ 1,453,540	\$ 783,453
Investments	2,794,515	-	-	74,774	9,584,400
Receivables					
Accounts	289,306	-	-	-	70,763
Taxes	20,092	-	-	-	-
Special assessments	-	-	-	-	-
Accrued interest	-	-	-	-	70,225
Due from other governments	432,973	188,017	42,235	392,450	-
Due from other funds	237,140	-	-	-	-
Due from component unit	260,566	-	-	-	-
Inventory	10,507	-	-	-	-
Prepaid items and other assets	48,945	-	-	-	-
Advances to other funds	-	-	-	-	-
<b>Total assets</b>	<u><u>\$ 4,478,811</u></u>	<u><u>\$ 205,322</u></u>	<u><u>\$ 42,235</u></u>	<u><u>\$ 1,920,764</u></u>	<u><u>\$ 10,508,841</u></u>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Liabilities</b>					
Accounts payable	\$ 249,280	\$ 5,663	\$ 3,746	\$ 197,004	\$ -
Accrued liabilities	137,553	3,137	7,731	-	-
Due to other funds	-	-	30,758	-	46,845
Deposits payable	101,778	-	-	-	-
Advances from other funds	-	-	-	-	-
Advance from component unit	-	-	-	-	-
Deferred revenue	20,092	-	-	17,000	-
<b>Total liabilities</b>	<u><u>508,703</u></u>	<u><u>8,800</u></u>	<u><u>42,235</u></u>	<u><u>214,004</u></u>	<u><u>46,845</u></u>
<b>Fund balance</b>					
Reserved for					
Advances	-	-	-	-	-
Prepaid items	48,945	-	-	-	-
Perpetual care	-	-	-	-	-
Recreation and culture	-	-	-	-	10,461,996
Inventory	10,507	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Unreserved					
Designated for subsequent years' expenditures	37,500	-	-	-	-
Designated for special revenue funds					
subsequent years' expenditures	-	70,000	-	-	-
Designated for future capital projects	1,600	-	-	1,706,760	-
Undesignated	3,871,556	126,522	-	-	-
Undesignated, reported in nonmajor					
Special revenue funds	-	-	-	-	-
<b>Total fund balance</b>	<u><u>3,970,108</u></u>	<u><u>196,522</u></u>	<u><u>-</u></u>	<u><u>1,706,760</u></u>	<u><u>10,461,996</u></u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 4,478,811</u></u>	<u><u>\$ 205,322</u></u>	<u><u>\$ 42,235</u></u>	<u><u>\$ 1,920,764</u></u>	<u><u>\$ 10,508,841</u></u>

The accompanying notes are an integral part of these financial statements.



<b>Other Governmental Funds</b>	<b>Total</b>
\$ 2,492,528	\$ 5,131,593
3,131,107	15,584,796
55,114	415,183
4,660	24,752
229,707	229,707
3,633	73,858
14,740	1,070,415
2,190	239,330
-	260,566
-	10,507
327	49,272
1,150,000	1,150,000
<b>\$ 7,084,006</b>	<b>\$ 24,239,979</b>

\$ 25,690	\$ 481,383
38,983	187,404
68,088	145,691
-	101,778
300,000	300,000
71,516	71,516
207,377	244,469
<b>711,654</b>	<b>1,532,241</b>

1,150,000	1,150,000
327	49,272
572,251	572,251
97,284	10,559,280
-	10,507
8,881	8,881
1,534,398	1,534,398
-	37,500
38,950	108,950
1,181,137	2,889,497
-	3,998,078
1,789,124	1,789,124
<b>6,372,352</b>	<b>22,707,738</b>
<b>\$ 7,084,006</b>	<b>\$ 24,239,979</b>

Continued.....

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

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**Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets**

Fund balances - total governmental funds \$ 22,707,738

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets	67,341,887
Subtract: accumulated depreciation	(37,395,389)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred property taxes	20,092
Add: other deferred revenues	158,191

Internal service funds are used by management to charge the costs of certain equipment usage and employee benefits to individual proprietary funds. The assets and liabilities of the internal service funds are included in governmental and business-type activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	10,685,528
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Add: deferred savings on refunded bonds	511,956
Subtract: amortization of deferred savings	(12,189)
Add: bond issuance costs	141,877
Subtract: amortization of bond issuance costs	(3,378)
Subtract: bonds payable	(11,240,000)
Subtract: compensated absences	(703,928)
Subtract: accrued interest on long-term liabilities	(133,705)

<b>Net assets of governmental activities</b>	<b><u>\$ 52,078,680</u></b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Public Improvement</u>	<u>Brown Bridge Trust</u>
<b>Revenues</b>					
Property taxes and special assessments	\$ 8,401,296	\$ -	\$ -	\$ -	\$ -
Licenses and permits	209,985	-	-	-	-
Federal sources	37,441	-	-	263,473	-
State sources	1,355,224	1,076,941	314,946	251,650	-
Local sources	1,506,507	-	-	-	-
Charges for services	318,908	-	-	-	537,414
Fines and forfeits	61,726	-	-	-	-
Reimbursement	666,199	-	-	2,946	-
Contributions	-	-	-	320,011	-
Interest income	460,966	3,421	-	75,267	558,311
Other revenue	377,446	-	-	-	-
<b>Total revenues</b>	<b>13,395,698</b>	<b>1,080,362</b>	<b>314,946</b>	<b>913,347</b>	<b>1,095,725</b>
<b>Expenditures</b>					
Current expenditures					
General government	2,791,828	-	-	8,133	-
Public safety	7,047,105	-	-	-	-
Public works	660,734	1,480,671	1,189,248	-	-
Recreation and culture	1,868,295	-	-	-	-
Community development	-	-	-	-	-
Capital outlay	-	-	-	1,308,001	-
Debt service	-	-	-	-	-
Principal	-	-	-	-	-
Interest expense and financial charges	-	-	-	-	-
Payment to refunded escrow agent	-	-	-	-	-
Payment for bond issuance costs	-	-	-	-	-
Underwriters discount	-	-	-	-	-
Gross bond insurance premium	-	-	-	-	-
<b>Total expenditures</b>	<b>12,367,962</b>	<b>1,480,671</b>	<b>1,189,248</b>	<b>1,316,134</b>	<b>-</b>
Excess (deficiency) of revenues over expenditures	1,027,736	(400,309)	(874,302)	(402,787)	1,095,725
<b>Other financing sources (uses)</b>					
Transfers in	496,167	412,797	874,302	428,300	-
Transfers in - city fee	402,443	-	-	-	-
Transfers out	(1,645,080)	(81,599)	-	-	(432,219)
Proceeds of refunding bonds	-	-	-	-	-
Reoffering premium	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(746,470)</b>	<b>331,198</b>	<b>874,302</b>	<b>428,300</b>	<b>(432,219)</b>
<b>Net change in fund balances</b>	<b>281,266</b>	<b>(69,111)</b>	<b>-</b>	<b>25,513</b>	<b>663,506</b>
Fund balance, beginning of year	3,688,842	265,633	-	1,681,247	9,798,490
<b>Fund balance, end of year</b>	<b>\$ 3,970,108</b>	<b>\$ 196,522</b>	<b>\$ -</b>	<b>\$ 1,706,760</b>	<b>\$ 10,461,996</b>

The accompanying notes are an integral part of these financial statements.

<b>Other Governmental Funds</b>		<b>Total</b>
\$ 45,624	\$ 8,446,920	
-	209,985	
93,465	394,379	
7,390	3,006,151	
759,701	2,266,208	
374,475	1,230,797	
-	61,726	
5,383	674,528	
129,101	449,112	
320,867	1,418,832	
22,576	400,022	
<b>1,758,582</b>	<b>18,558,660</b>	
213,553	3,013,514	
41,630	7,088,735	
-	3,330,653	
686,065	2,554,360	
12,825	12,825	
168,648	1,476,649	
170,000	170,000	
331,647	331,647	
183,833	183,833	
66,364	66,364	
88,065	88,065	
29,721	29,721	
<b>1,992,351</b>	<b>18,346,366</b>	
(233,769)	212,294	
171,234	2,382,800	
-	402,443	
(262,969)	(2,421,867)	
9,785,000	9,785,000	
42,273	42,273	
(9,643,123)	(9,643,123)	
<b>92,415</b>	<b>547,526</b>	
<b>(141,354)</b>	<b>759,820</b>	
6,513,706	21,947,918	
<b>\$ 6,372,352</b>	<b>\$ 22,707,738</b>	

Continued.....

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

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**Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds \$ 759,820

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	1,238,823
Subtract: depreciation expense	(1,413,924)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: bond proceeds	(470,000)
Add: deferred amount on refunding	511,956
Add: bond issuance costs	141,877
Add: current principal debt payment	170,000
Subtract: amortization of deferred savings	(12,189)
Subtract: amortization of bond issuance costs	(3,378)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Subtract: prior year deferred property taxes and special assessments	(295,800)
Add: current year deferred property taxes and special assessments	178,283

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: decrease in accrued interest payable	7,818
Subtract: increase in the accrual of compensated absences	(7,442)

Internal service funds are used by management to charge the costs of certain activities, such as equipment usage and employee benefits, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: interest income from governmental internal service funds	214,913
Add: other revenue from governmental internal service funds	82,815
Add: gain on disposal of capital assets in governmental internal service funds	147,946
Add: net operating income from governmental activities accounted for in internal service funds	280,554

<b>Change in net assets of governmental activities</b>	<b><u>\$ 1,532,072</u></b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Taxes	\$ 8,390,000	\$ 8,420,000	\$ 8,401,296	\$ (18,704)
Licenses and permits	200,650	200,650	209,985	9,335
Federal sources	37,000	37,000	37,441	441
State sources	1,401,000	1,401,000	1,355,224	(45,776)
Local sources	1,499,301	1,516,682	1,506,507	(10,175)
Charges for services	348,350	348,350	318,908	(29,442)
Fines and forfeits	81,000	81,000	61,726	(19,274)
Reimbursements	475,000	475,000	666,199	191,199
Interest income	325,000	380,000	460,966	80,966
Other revenue	358,400	368,400	377,446	9,046
<b>Total revenues</b>	<b>13,115,701</b>	<b>13,228,082</b>	<b>13,395,698</b>	<b>167,616</b>
<b>Expenditures</b>				
General government	2,835,400	2,950,400	2,791,828	158,572
Public safety	7,054,350	7,148,350	7,047,105	101,245
Public works	1,241,900	841,900	660,734	181,166
Recreation and culture	1,990,050	1,990,050	1,868,295	121,755
<b>Total expenditures</b>	<b>13,121,700</b>	<b>12,930,700</b>	<b>12,367,962</b>	<b>562,738</b>
(Deficiency) excess of revenue over expenditures	(5,999)	297,382	1,027,736	730,354
<b>Other financing sources (uses)</b>				
Transfers in	831,549	881,168	898,610	17,442
Transfers out	(1,257,500)	(1,660,500)	(1,645,080)	15,420
<b>Total other financing sources (uses)</b>	<b>(425,951)</b>	<b>(779,332)</b>	<b>(746,470)</b>	<b>32,862</b>
<b>Net change in fund balance</b>	<b>(431,950)</b>	<b>(481,950)</b>	<b>281,266</b>	<b>763,216</b>
Fund balance, beginning of year	3,688,842	3,688,842	3,688,842	-
<b>Fund balance, end of year</b>	<b>\$ 3,256,892</b>	<b>\$ 3,206,892</b>	<b>\$ 3,970,108</b>	<b>\$ 763,216</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Major Streets Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
State sources	\$ 928,000	\$ 1,032,500	\$ 1,076,941	\$ 44,441
Interest income	4,300	4,300	3,421	(879)
<b>Total revenues</b>	<b>932,300</b>	<b>1,036,800</b>	<b>1,080,362</b>	<b>43,562</b>
<b>Expenditures</b>				
Public works				
Personnel	452,000	496,500	510,934	(14,434)
Commodities	121,600	141,600	166,448	(24,848)
Contractual services	110,250	170,250	112,155	58,095
Other charges	431,000	771,000	691,134	79,866
<b>Total expenditures</b>	<b>1,114,850</b>	<b>1,579,350</b>	<b>1,480,671</b>	<b>98,679</b>
(Deficiency) excess of revenue over expenditures	(182,550)	(542,550)	(400,309)	142,241
<b>Other financing sources (uses)</b>				
Transfers in	133,250	493,250	412,797	(80,453)
Transfers out	(100,000)	(100,000)	(81,599)	18,401
<b>Total other financing sources (uses)</b>	<b>33,250</b>	<b>393,250</b>	<b>331,198</b>	<b>(62,052)</b>
<b>Net change in fund balance</b>	<b>(149,300)</b>	<b>(149,300)</b>	<b>(69,111)</b>	<b>80,189</b>
Fund balance, beginning of year	265,633	265,633	265,633	-
<b>Fund balance, end of year</b>	<b>\$ 116,333</b>	<b>\$ 116,333</b>	<b>\$ 196,522</b>	<b>\$ 80,189</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Local Streets Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenue</b>				
State sources	\$ 350,000	\$ 350,000	\$ 314,946	\$ 35,054
<b>Expenditures</b>				
Public works				
Personnel	501,000	531,000	513,670	17,330
Contractual services	54,250	54,250	39,928	14,322
Commodities	72,000	72,000	86,400	(14,400)
Other charges	495,000	505,000	549,250	(44,250)
<b>Total expenditures</b>	<b>1,122,250</b>	<b>1,162,250</b>	<b>1,189,248</b>	<b>(26,998)</b>
(Deficiency) of revenue over expenditures	(772,250)	(812,250)	(874,302)	(62,052)
<b>Other financing sources</b>				
Transfer in	772,250	812,250	874,302	62,052
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balance, beginning of year	-	-	-	-
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these financial statements.



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2007**

	Enterprise Funds		
	Wastewater	Water	Marina
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 843,281	\$ -	\$ 311,545
Investments	49,615	432,429	-
Receivables			
Accounts	613,589	497,814	9,061
Taxes	2,382	735	-
Accrued interest	-	1,069	-
Due from other funds	-	1,678	-
Inventory	-	112,733	21,395
Prepaid cost and other assets	20,267	3,256	978
<b>Total current assets</b>	<b>1,529,134</b>	<b>1,049,714</b>	<b>342,979</b>
Noncurrent assets			
Restricted assets	-	282,997	-
Capital assets	25,436,479	6,901,755	10,476,464
<b>Total noncurrent assets</b>	<b>25,436,479</b>	<b>7,184,752</b>	<b>10,476,464</b>
<b>Total assets</b>	<b>26,965,613</b>	<b>8,234,466</b>	<b>10,819,443</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	41,635	81,156	66,265
Accrued and other liabilities	110,249	34,005	4,197
Due to other funds	3,723	42,196	-
Current portion of long-term debt	953,814	200,000	-
<b>Total current liabilities</b>	<b>1,109,421</b>	<b>357,357</b>	<b>70,462</b>
Noncurrent liabilities			
Advance from component unit	-	-	750,000
Advance from other funds	-	-	850,000
Long-term debt, net of current portion	16,206,931	1,125,000	-
Compensated absences	19,413	33,606	5,713
<b>Total liabilities</b>	<b>17,335,765</b>	<b>1,515,963</b>	<b>1,676,175</b>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	8,226,324	5,576,755	10,476,464
Restricted for			
Debt service	-	82,997	-
Unrestricted (deficit)	1,403,524	1,058,751	(1,333,196)
<b>Total net assets</b>	<b>\$ 9,629,848</b>	<b>\$ 6,718,503</b>	<b>\$ 9,143,268</b>

The accompanying notes are an integral part of these financial statements.

<b>Automobile Parking System</b>	<b>Total</b>	<b>Internal Service Funds</b>
\$ 1,435,251	\$ 2,590,077	\$ 1,703,073
24,250	506,294	3,000,000
4,159	1,124,623	6,500
-	3,117	-
-	1,069	14,101
-	1,678	-
-	134,128	128,416
506	25,007	3,768
<b>1,464,166</b>	<b>4,385,993</b>	<b>4,855,858</b>
-	282,997	-
9,489,510	52,304,208	6,118,170
<b>9,489,510</b>	<b>52,587,205</b>	<b>6,118,170</b>
<b>10,953,676</b>	<b>56,973,198</b>	<b>10,974,028</b>
18,306	207,362	227,343
49,820	198,271	17,875
49,398	95,317	-
-	1,153,814	-
<b>117,524</b>	<b>1,654,764</b>	<b>245,218</b>
-	750,000	-
-	850,000	-
-	17,331,931	-
1,946	60,678	33,073
<b>119,470</b>	<b>20,647,373</b>	<b>278,291</b>
9,489,510	33,769,053	6,118,170
-	82,997	-
1,344,696	2,473,775	4,577,567
<b>\$ 10,834,206</b>	<b>\$ 36,325,825</b>	<b>\$ 10,695,737</b>

Continued.....

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2007**

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**Reconciliation of Net Assets on the Statement of Net Assets for Enterprise  
Funds to Net Assets of Business-Type Activities on the Statement of Net  
Assets**

Net assets - total enterprise funds	\$ 36,325,825
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Amounts reported for business-type activities in the statement of net assets  
are different because

Internal service funds are used by management to charge the costs of  
certain equipment usage and employee benefits to individual proprietary funds. The assets  
and liabilities of the internal service funds are included in governmental and business-type  
activities in the statement of net assets.

Add: net assets of business-type activities accounted for in the internal service funds	<u>10,209</u>
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<b>Net assets of business-type activities</b>	<b><u><u>\$ 36,336,034</u></u></b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

	<b>Enterprise funds</b>		
	<b>Wastewater</b>	<b>Water</b>	<b>Marina</b>
<b>Operating revenues</b>			
Charges for services	\$ 4,988,779	\$ 2,148,984	\$ 451,862
Interdepartmental	-	-	-
Other revenue	256,412	105,454	14,610
<b>Total operating revenues</b>	<b>5,245,191</b>	<b>2,254,438</b>	<b>466,472</b>
<b>Operating expenses</b>			
Personnel services	501,476	962,356	96,792
Commodities	20,898	170,654	7,864
Contractual services	2,666,281	251,291	188,094
Other charges	202,725	347,816	62,943
Benefit payments	-	-	-
Depreciation and amortization	591,611	250,695	132,580
<b>Total operating expenses</b>	<b>3,982,991</b>	<b>1,982,812</b>	<b>488,273</b>
Operating income (loss)	1,262,200	271,626	(21,801)
<b>Nonoperating revenues (expenses)</b>			
Reimbursements	12,283	161	-
Other revenue	-	-	-
Interest income	61,105	50,012	10,714
Interest expense and financial charges	(629,287)	(88,250)	(59,070)
Gain on sale of capital assets	-	-	-
<b>Total nonoperating revenues (expenses)</b>	<b>(555,899)</b>	<b>(38,077)</b>	<b>(48,356)</b>
<b>Income before transfers</b>	<b>706,301</b>	<b>233,549</b>	<b>(70,157)</b>
Capital contributions	-	10,000	-
Transfers in	-	-	39,067
Transfers out - city fee	(237,723)	(115,322)	-
<b>Change in net assets</b>	<b>468,578</b>	<b>128,227</b>	<b>(31,090)</b>
Net assets, beginning of year	9,161,270	6,590,276	9,174,358
<b>Net assets, end of year</b>	<b>\$ 9,629,848</b>	<b>\$ 6,718,503</b>	<b>\$ 9,143,268</b>

The accompanying notes are an integral part of these financial statements.

<b>Automobile Parking System</b>	<b>Total</b>	<b>Internal Service Funds</b>
\$ 872,778	\$ 8,462,403	\$ -
-	-	2,750,215
47,403	423,879	-
<b>920,181</b>	<b>8,886,282</b>	<b>2,750,215</b>
117,438	1,678,062	707,407
13,392	212,808	602,845
343,312	3,448,978	87,876
267,849	881,333	227,780
-	-	67,301
262,591	1,237,477	795,323
<b>1,004,582</b>	<b>7,458,658</b>	<b>2,488,532</b>
(84,401)	1,427,624	261,683
-	12,444	-
-	-	82,815
74,333	196,164	214,913
-	(776,607)	-
-	-	147,946
<b>74,333</b>	<b>(567,999)</b>	<b>445,674</b>
<b>(10,068)</b>	<b>859,625</b>	<b>707,357</b>
-	10,000	-
-	39,067	-
(49,398)	(402,443)	-
<b>(59,466)</b>	<b>506,249</b>	<b>707,357</b>
10,893,672	35,819,576	9,988,380
<b>\$ 10,834,206</b>	<b>\$ 36,325,825</b>	<b>\$ 10,695,737</b>

Continued.....

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

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**Reconciliation of the Statement of Revenues, Expenses and Changes  
in Net Assets of Enterprise Funds to the Statement of Activities**

Change in net assets - total enterprise funds	\$ 506,249
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Internal service funds are used by management to charge the costs of certain equipment usage and employee benefits to individual funds. The net revenue (expense) attributable to enterprise funds is reported with business-type activities.

Subtract: net operating loss from business-type activities in internal service funds	<u>(18,871)</u>
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<b>Change in net assets of business-type activities</b>	<b><u>\$ 487,378</u></b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

	<b>Enterprise funds</b>		
	<b>Wastewater</b>	<b>Water</b>	<b>Marina</b>
<b>Cash flows from operating activities</b>			
Cash received from interfund services	\$ -	\$ -	\$ -
Cash received from customers	5,322,970	2,110,388	459,724
Cash payments to suppliers for goods and services	(2,681,617)	(737,978)	(239,537)
Cash payments to employees for services	(493,473)	(956,776)	(94,567)
<b>Net cash provided by operating activities</b>	<b>2,147,880</b>	<b>415,634</b>	<b>125,620</b>
<b>Cash flows from non-capital financing activities</b>			
Due from other funds	-	(1,678)	-
Advance to other funds	-	-	(50,000)
Due to other funds	(27,775)	25,607	(10,374)
Transfer in	-	-	39,067
City fee	(237,723)	(115,322)	-
Due from other governments	-	-	7,964
Other revenue	-	-	-
Reimbursements	12,283	161	-
<b>Net cash (used in) provided by non-capital financing activities</b>	<b>(253,215)</b>	<b>(91,232)</b>	<b>(13,343)</b>
<b>Cash flows from capital and related financing activities</b>			
Capital contribution	-	10,000	-
Principal payments	(978,422)	(175,000)	-
Interest payments	(636,791)	(90,000)	(59,070)
Purchases of capital assets	(320,273)	(285,402)	(50,700)
Proceeds from sale of capital assets	-	-	-
<b>Net cash (used in) provided by capital and related financing activities</b>	<b>(1,935,486)</b>	<b>(540,402)</b>	<b>(109,770)</b>
<b>Cash flows from investing activities</b>			
Interest received	64,828	50,012	10,714
Sale of investments	(414)	-	-
Purchase of investments	-	(18,128)	-
<b>Net cash provided by (used in) investing activities</b>	<b>64,414</b>	<b>31,884</b>	<b>10,714</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>23,593</b>	<b>(184,116)</b>	<b>13,221</b>
Cash and cash equivalents, beginning of year	819,688	467,113	298,324
<b>Cash and cash equivalents, end of year</b>	<b>\$ 843,281</b>	<b>\$ 282,997</b>	<b>\$ 311,545</b>
<b>Statement of net assets classification of cash and cash equivalents</b>			
Cash and cash equivalents	\$ 843,281	\$ -	\$ 311,545
Restricted assets	-	282,997	-
	<b>\$ 843,281</b>	<b>\$ 282,997</b>	<b>\$ 311,545</b>

The accompanying notes are an integral part of these financial statements.

<u>Automobile Parking System</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ -	\$ -	\$ 2,750,895
921,678	8,814,760	-
(619,222)	(4,278,354)	(901,600)
(116,522)	(1,661,338)	(771,998)
<b>185,934</b>	<b>2,875,068</b>	<b>1,077,297</b>
-	(1,678)	-
-	(50,000)	-
4,651	(7,891)	-
-	39,067	-
(49,398)	(402,443)	-
-	7,964	-
-	-	82,815
-	12,444	-
<b>(44,747)</b>	<b>(402,537)</b>	<b>82,815</b>
-	10,000	-
-	(1,153,422)	-
-	(785,861)	-
(200,836)	(857,211)	(1,316,099)
-	-	273,136
<b>(200,836)</b>	<b>(2,786,494)</b>	<b>(1,042,963)</b>
74,333	199,887	214,913
(537)	(951)	(15,980)
-	(18,128)	(400,000)
<b>73,796</b>	<b>180,808</b>	<b>(201,067)</b>
<b>14,147</b>	<b>(133,155)</b>	<b>(83,918)</b>
1,421,104	3,006,229	1,786,991
<b>\$ 1,435,251</b>	<b>\$ 2,873,074</b>	<b>\$ 1,703,073</b>
\$ 1,435,251	\$ 2,590,077	\$ 1,703,073
-	282,997	-
<b>\$ 1,435,251</b>	<b>\$ 2,873,074</b>	<b>\$ 1,703,073</b>

Continued.....

The accompanying notes are an integral part of these financial statements.



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

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	<u>Wastewater</u>	<u>Water</u>	<u>Marina</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income (loss)	\$ 1,262,200	\$ 271,626	\$ (21,801)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	591,611	250,695	132,580
Changes in assets and liabilities			
Accounts receivables	77,779	(144,050)	(6,748)
Prepaid cost and other assets	175,843	180	(151)
Inventories	-	(1,931)	3,688
Accounts payable	32,444	33,534	15,827
Accrued and other liabilities	8,003	5,580	2,225
<b>Net cash provided by operating activities</b>	<b><u>\$ 2,147,880</u></b>	<b><u>\$ 415,634</u></b>	<b><u>\$ 125,620</u></b>

The accompanying notes are an integral part of these financial statements.

<u>Automobile Parking System</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ (84,401)	\$ 1,427,624	\$ 261,683
262,591	1,237,477	795,323
1,497	(71,522)	680
715	176,587	(529)
-	1,757	7,584
4,616	86,421	9,846
916	16,724	2,710
<u><b>\$ 185,934</b></u>	<u><b>\$ 2,875,068</b></u>	<u><b>\$ 1,077,297</b></u>

Concluded

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2007**

	<b>ACT 345 Retirement Pension Trust Fund</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,644,451	\$ 235,170
Investments, at fair value		
U.S. Government Agencies bonds and notes	2,144,008	-
U.S. Government Agencies passthroughs	1,609,810	-
Common stock	7,913,298	-
Foreign bonds	33,860	-
Mutual funds	4,452,183	-
Common /collective funds	7,845,532	-
Corporate asset backed securities	350,215	-
Corporate bonds	631,477	-
Receivables		
Accounts	-	31,320
Taxes	-	84,020
Accrued interest	64,090	-
<b>Total assets</b>	<b>26,688,924</b>	<b>\$ 350,510</b>
<b>Liabilities</b>		
Accrued and other liabilities	-	\$ 214,481
Due to other governmental units	-	136,029
<b>Total liabilities</b>	<b>-</b>	<b>\$ 350,510</b>
<b>Net Assets</b>		
Held in trust for pension benefits and other purposes	<b>\$ 26,688,924</b>	

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2007**

		<b>ACT 345 Retirement System</b>
<b>Additions</b>		
Contributions		
City contributions	\$	987,602
Member contributions		23,496
		<u>1,011,098</u>
Total contributions		
		<u>1,011,098</u>
Investment earnings		
Interest income		318,470
Dividend income		203,365
Net appreciation in fair value of investments		3,481,791
Less investment advisor fees		(150,574)
		<u>3,853,052</u>
Net investment earnings		
		<u>3,853,052</u>
<b>Total additions</b>		<b><u>4,864,150</u></b>
<b>Deductions</b>		
Pension benefits paid		1,335,435
Health insurance premiums paid		343,757
Administrative expense		49,082
		<u>1,728,274</u>
<b>Total deductions</b>		<b><u>1,728,274</u></b>
<b>Net increase in plan assets attributable to pension plan</b>	<b>3,147,613</b>	
<b>Net decrease in plan assets attributable to health insurance</b>	<b><u>(11,737)</u></b>	<b>3,135,876</b>
Net assets held in trust, beginning of year		<u>23,553,048</u>
<b>Net assets held in trust, end of year, attributable to pension plan</b>	<b>25,637,199</b>	
<b>Net assets held in trust, end of year, attributable to health insurance</b>	<b><u>1,051,725</u></b>	<b><u>\$ 26,688,924</u></b>

The accompanying notes are an integral part of these financial statements.

# CITY OF TRAVERSE CITY, MICHIGAN

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### Notes to the Financial Statements

June 30, 2007

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# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The *City of Traverse City* (the "City") was incorporated in 1895. The City operates under a commission-manager form of government and provides the following services as authorized by its charter: General Government/administrative services, Public Safety, Highways and Streets, Parks and Recreation, Planning and Zoning and Public Improvements.

#### Discretely Presented Component Units

The City has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of the "reporting entity".

The following component units are included in the City's reporting entity.

Downtown Development Authority (the "DDA")

- Includes the DDA General Fund and the TIF 2 and TIF 97 Special Revenue Funds

Traverse City Light and Power Department (the "Department")

Traverse City Housing Commission (the "Commission")

These discretely presented component units are presented in the statement of net assets and statement of activities. They are legally separate, and while the City is not responsible for the operations of the entities, the City is financially accountable for them. In addition, the City appoints the DDA's Board of Trustees, the Department's Board of Directors and the Commission's Board of Commissioners. The nature and significance of the relationship between these entities and the City is such that exclusion of these entities would render the basic financial statements misleading or incomplete.

Complete financial statements of the individual component units can be obtained from the City Treasurer's Office at 400 Boardman Avenue, Traverse City, Michigan 49684, or from the entities themselves.

Other entities with which the City does not have such relationships are:

Grand Traverse Commons Redevelopment Corporation

Traverse Area District Library

City of Traverse City and Garfield Township Recreational Authority

The boards of these entities are independent of the City and the City has no significant operational or financial relationship with these entities. Accordingly, the financial statements for these entities have been excluded from the accompanying financial statements.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### **Joint operation**

The City entered into a master sewer agreement effective July 1, 1987 and amended July 1, 2001 to continue until June 30, 2041 with the Townships of East Bay, Acme, Peninsula, and Garfield in Grand Traverse County and the Township of Elmwood in Leelanau and Grand Traverse County. The master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all multi-user facilities. Ownership of the treatment plant will revert to the City of Traverse City when certain bonds issued by Grand Traverse County are retired.

The City of Traverse City is the exclusive manager of the plant for the benefit of itself and the Townships. As the exclusive manager, the City of Traverse City has the obligation to fully inform and advise the Townships as to the treatment plant's operation and the Townships shall have the right to comment on all matters connected with the administration of the plant.

Each participant in the joint venture pays an amount sufficient to cover their pro rata share of treatment plant operational costs. Each participant's pro rata share is determined by their volume of sewage treated in relation to total sewage treated at the plant.

The City is responsible for debt service on the 2003 and 1998 capital leases listed in Note IIIF as determined biannually based upon the percentage of the City's flow to the total flow through the treatment plant. For the biannual period ending December 31, 2007, the City's percentage was 49.93 percent. The City is responsible for debt service on the 2002 capital lease listed in Note IIIF based on capacity rights. The City's capacity right is sixty percent of the related facilities for which they have elected to lease out ten percent of these rights to Townships.

### **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1)

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenue, state-shared revenue, and interest associated with the current fiscal period are considered to be available if they are collected within the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.



# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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The *Major Streets Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street and highway purposes.

The *Local Streets Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The *Public Improvement Fund* accounts for transfers from the General Fund and various grants for miscellaneous equipment transactions, property development and construction projects.

The *Brown Bridge Trust Fund* accounts for the use of money derived from oil, gas and mineral exploration at the Brown Bridge property, and cell phone tower rent which shall be endowed in a permanent trust. The income from the endowment is used to supplement City taxes as a credit against the General Fund property tax levy.

The government reports the following major proprietary funds:

The *Wastewater Fund* accounts for the activities of the wastewater disposal and treatment system.

The *Water Fund* accounts for the activities of the water distribution and treatment system.

The *Marina Fund* accounts for the activities of the marina operations.

The *Automobile Parking System* accounts for the activities of the parking system.

Additionally, the government reports the following fund types:

The *special revenue funds* account for the proceeds of specific revenue sources (other than permanent trust or major capital projects) that are legally restricted to expenditures for specified purposes.

The *debt service funds* accounts for the resources accumulated and payments made for the principal and interest on long term general obligation debt of the governmental funds.

The *capital project funds* account for financial resources accumulated including bond proceeds to be used towards capital projects including the Hardy Parking Deck and new sidewalk construction.

The *permanent fund* accounts for the activities of a permanent trust, which provides income on the corpus of the fund. The income is transferred to the General Fund to subsidize cemetery operations.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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The *internal service funds* account for fleet and equipment management and employee fringe benefits provided to other departments or agencies of the government, on a cost reimbursement basis.

The *pension trust fund* accounts for the activities of the Public Safety employees Retirement System, which accumulates resources for pension and postretirement health benefits payments to qualified public safety employees.

The *agency funds* account for assets held for other governments and individuals in an agency capacity, specifically tax collections, payroll fringes, and a senior center.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and wastewater function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Wastewater, Water, Marina, and Automobile Parking System enterprise funds and the discretely presented component units Light and Power and Housing Commission and the City's internal service funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, liabilities and net assets or equity**

#### **1. *Deposits and investments***

The City's cash and cash equivalents include cash on hand, demand and time deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

#### **2. *Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" except if they are noncurrent than they are reported as advance from/advance to. The advances from are offset by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and are not available for appropriation. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### **3. *Restricted assets***

The Water Revenue bonds require certain resources to be set aside for their repayment. These resources are classified as restricted assets on the statement of net assets because the use is limited by applicable bond covenants.

#### **4. *Inventory***

Inventory held by the General Fund is valued on the first-in, first-out basis. Enterprise and internal service funds value inventory at average cost, except for fuel, which is valued on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

#### **5. *Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

---

governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. The amount reported for infrastructure includes assets acquired or constructed since 1985.

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	10-50
Public domain infrastructure	10-50
System infrastructure	10-50
Vehicles	7-25
Equipment	5-10

### **6. *Compensated absences***

City employees are granted vacation hours on their anniversary date of hire. The number of hours is dependent upon years of service. Unused vacation pay is accrued at year-end.

Until 1990, sick leave hours were credited to each employee as earned during a calendar year. Bargaining and non-bargaining employees are compensated for one-half of their unused accumulated sick leave hours up to a maximum of 480 hours (or 1,080 hours for Light and Power Department and Fire Department employees) upon retirement.

Since 1990, short-term leave pay has replaced sick leave pay for all employees. Each employee is entitled to 56 hours of short-term leave pay per year on December 1. Unused short-term leave accumulated at November 30 is paid out on December 1. The City accrues unused short-term leave at its fiscal year-end.

# **CITY OF TRAVERSE CITY, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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All vacation and sick leave is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation or retirements.

### **7. *Long-term obligations***

In the government-wide financial statements, and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as an other financing source while discounts on debt issuances are reported as an other financing use. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **8. *Fund balance/net assets***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Restricted net assets represent legal restriction on the use of net assets.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general, special revenue, debt service and capital project funds. All annual appropriations lapse at fiscal year end.

Not earlier than the third Monday in May and not later than the first Monday in June of each year the City Commission shall, by resolution, adopt the budget for the next fiscal year.

# **CITY OF TRAVERSE CITY, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing board is the function level, which is the level at which expenditures may not legally exceed appropriations. The City Commission may transfer any unencumbered appropriation balance or any portion thereof from one department, fund, or agency to another.

### **B. Excess of expenditures over appropriations**

For the year ended June 30, 2007, the Local Streets, State Preparedness Grant, Truancy and Interdiction, ACT 302 Competitive McCauley Estate Trust Grant Special Revenue Funds, and the Parking Deck Bond Redemption Non-Taxable Debt Service Fund exceeded appropriations by \$26,997, \$22,860, \$3,298, \$70, \$353, and \$133,230 respectively. These over expenditures were funded either by greater than anticipated revenues in the applicable fund and/or the use of prior year fund balance.

### **C. Deficit fund balance**

For the year ended June 30, 2007 the City's Opera House Special Revenue Fund ended in a deficit unreserved fund balance \$(209,062). Significant expenditures were incurred which were funded by a long term advance from the City's Industrial Park Fund. The deficit fund balance will be eliminated by future rent payments. The City is submitting a deficit elimination plan to the state in December 2007.

## **III. DETAILED NOTES ON ALL FUNDS**

### **A. Deposits and investments**

Michigan Compiled Laws, Section 129.91 authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Commission has designated five banks for the deposit of City funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, interest bearing savings and checking accounts, repurchase agreements, bankers' acceptance of United States banks, federal agency instruments, money market funds with a net asset

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

value of \$1.00 per share, commercial paper within the two highest classifications and negotiable and non-negotiable certificates of deposits, but not the remainder of State statutory authority as listed above.

The City's deposits and investment policy is in accordance with statutory authority.

Cash and cash equivalents, investments and restricted assets (excluding the Housing Commission) are reported in the financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 6,834,666	\$ 2,590,077	\$ 1,879,621	\$ 11,304,364	\$ 11,090,678
Investments	18,584,796	506,294	24,980,383	44,071,729	10,953,217
Restricted assets	-	282,997	-	282,997	622,595
<b>Total</b>	<b><u>\$ 25,419,462</u></b>	<b><u>\$ 3,379,368</u></b>	<b><u>\$ 26,860,004</u></b>	<b><u>\$ 55,658,834</u></b>	<b><u>\$ 22,666,490</u></b>

Cash and cash equivalents reported above include \$5,350 of cash on hand that is not considered deposits or investments for footnote purposes.

The breakdown between deposits and investments is as follows:

City and component unit bank deposits (checking, savings accounts and certificates of deposit)	\$ 33,426,726
City and component unit investments	19,912,865
Act 345 retirement	<u>24,980,383</u>
<b>Total</b>	<b><u>\$ 78,319,974</u></b>

### Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federal Home Loan bond	11/21/2008	\$ 199,688	AAA
Federal Home Loan bond	05/26/2009	249,765	AAA
Federal Home Loan bond	08/08/2007	299,907	AAA
US Treasury note	01/31/2012	114,138	AAA
US Treasury note	04/15/2009	97,000	AAA
US Treasury note	09/15/2008	97,844	AAA
US Treasury note	08/15/2008	88,312	AAA
US Treasury note	09/15/2008	489,220	AAA
US Treasury note	11/15/2006	282,996	AAA

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury note	05/31/2009	\$ 999,690	AAA
US Treasury note	05/15/2008	445,077	AAA
US Treasury note	05/31/2008	999,060	AAA
US Treasury note	06/15/2009	983,670	AAA
US Treasury note	06/30/2012	49,615	AAA
US Treasury note	04/15/2009	24,250	AAA
US Treasury note	05/15/2009	736,290	AAA
US Treasury note	11/15/2009	49,696	AAA
US Treasury note	01/31/2009	998,670	AAA
US Treasury note	02/15/2014	236,660	AAA
US Treasury note	04/15/2009	970,000	AAA
US Treasury note	05/31/2012	992,190	AAA
US Treasury note	08/15/2013	965,550	AAA
US Treasury note	11/15/2008	247,950	AAA
US Treasury note	11/15/2013	962,730	AAA
US Treasury note	12/15/2008	488,985	AAA
US Treasury note	04/30/2011	998,520	AAA
US Treasury note	05/15/2008	989,060	AAA
US Treasury note	05/31/2008	999,060	AAA
US Treasury note	05/15/2009	981,720	AAA
US Treasury note	05/15/2014	296,250	AAA
US Treasury note	04/15/2009	87,300	AAA
US Treasury note	08/15/2008	686,915	AAA
US Treasury note	04/15/2009	67,900	AAA
US Treasury note	08/15/2008	157,000	AAA
US Treasury note	06/30/2009	1,000,000	AAA
US Treasury note	06/30/2012	114,702	AAA
MPPA Investments	Various	622,595	AAA
Investment pool	N/A	666,792	Unrated
Investment pool	N/A	166,883	AAA/V1+
Investment pool	N/A	8,097	Unrated
Investment pool	N/A	<u>1,118</u>	AAA
<b>Total</b>		<b><u>\$ 19,912,865</u></b>	

### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.



# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's deposit custodial credit risk policy is described below. As of year end, \$31,217,734 of the City's bank balance of \$32,124,045 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with the City's investment policy the City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by the policy. In addition, the City Treasurer will prequalify all financial institutions, broker/dealers, intermediaries and advisors with which the City will do business by subjecting them to certain criteria. Of the above \$19,069,975 of investments, the City has a custodial credit risk exposure of \$19,069,975 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. The custodial credit risk for balances in investment pools cannot be determined because the investments are not evidenced by specific identifiable securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All of the City's investments are identified above.

### **ACT 345 Pension Trust Fund Deposits and Investments**

#### **Deposits and Investments – Pension Trust Fund**

The City maintains a pension trust fund (the "Act 345") where deposits and investments are maintained separately from the City's pooled cash and investments, and are subject to separate investment policies and state statutes. Accordingly, the required disclosures for the pension trust funds' deposits and investments are presented separately.

*Deposits* – The fund maintains a checking account with a bank balance of \$1,027,026 and money market account in the pension fund trust account with a balance of \$617,425. \$200,000 of these deposits are insured.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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**Investments** – The Michigan Public Employees Retirement Systems’ Investment Act, Public Act 314, of 1965, as amended, authorizes pension trusts to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board, which is made up of the City Treasurer, an active fire and police member, and two additional members appointed by the City Manager has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the pension trust funds’ assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

The pension trust funds’ investments are held in a bank-administered trust fund. Following is a summary of the System’s investments as of June 30, 2007:

Investments at fair value, as determined by quoted market price	
U.S. Government Agency bonds and notes	\$ 2,144,008
U.S. Government Agency passthroughs	1,609,810
Domestic corporate securities	
Corporate asset backed securities	350,215
Corporate bonds	631,477
Domestic equities	
Mutual funds	4,452,183
Corporate stocks	7,913,298
Common/collective funds (a mutual fund)	7,845,532
International bonds	<u>33,860</u>
<b>Total investments</b>	<b><u>\$ 24,980,383</u></b>

In addition to the above, the fund has short-term investments of \$617,425 as of June 30, 2007 held entirely in money market funds.

**Credit Risk.** The pension trust funds’ investment policy provides that its investments in fixed income securities should have an investment grade rating by two nationally recognized statistical rating organizations. As of June 30, 2007, the funds investments in bonds, notes and asset backed securities were rated by Moody’s as follows:

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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AAA	\$ 2,533,806
A1	53,268
A2	68,869
AA2	92,578
AA3	90,235
B1	50,024
B2	20,525
BA1	49,541
BA2	39,356
BA3	45,294
BAA1	28,656
BAA2	38,880
BAA3	<u>48,528</u>

**\$ 3,159,560**

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The pension trust funds' investment policy requires that investment securities be held in the name of the system, in the name of the nominee of the custodian, or in bearer form. Of the above \$12,682,668 of investments, the City has a custodial credit risk exposure of \$12,682,668 because the related securities are uninsured, unregistered and held by the System's custodian. Custodial credit risk for investments in mutual funds cannot be determined because the investments are not evidenced by specifically identifiable securities.

*Concentration of Credit Risk.* The pension trust funds' investment policies require that the securities of any one issuer excluding investments explicitly guaranteed by the U.S. Government and investment in mutual funds, external investment pools, and other pooled investments should not exceed 5% of the total investment market value of each individual pension trust fund. At June 30, 2007, there were no concentrations in securities of any one issuer greater than 5% of investment fair market value.

*Interest Rate Risk.* As of June 30, 2007, maturities of the pension trust funds' debt securities were as follows:

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

<b>Investment Maturities (fair value by years)</b>					
	<b><u>Fair Value</u></b>	<b><u>Less Than 1</u></b>	<b><u>1-5</u></b>	<b><u>6-10</u></b>	<b><u>More Than 10</u></b>
Corporate asset					
backed securities	\$ 350,215	\$ -	\$ 141,900	\$ -	\$ 208,315
Corporate obligations	631,477	-	207,867	354,641	68,969
Foreign bonds	33,860	-	-	24,300	9,560
U.S. Government Agency					
bonds and notes	2,144,008	10,000	1,586,117	44,443	503,448
U.S. Government Agency					
passthroughs	<u>1,609,810</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,609,810</u>
<b>Total debt securities</b>	<b><u>\$4,769,370</u></b>	<b><u>\$ 10,000</u></b>	<b><u>\$1,935,884</u></b>	<b><u>\$ 423,384</u></b>	<b><u>\$2,400,102</u></b>

The pension trust fund's investment policies do not address interest rate risk.

*Foreign Currency Risk.* The system's exposure to foreign currency risk is as follows:

<b><u>Investment</u></b>	<b><u>Currency</u></b>	<b><u>Maturity</u></b>	<b><u>Fair Value</u></b>	<b><u>Rating</u></b>
Nexen Inc Nt	Canadian Dollar	05/15/2037	\$ 9,560	BAA2
Royal Carribean	Norway Kroner	6/15/2016	9,880	BA1
BHP Billiton Finance	Australian Dollar	03/29/2017	<u>14,420</u>	A1
			<b><u>\$ 33,860</u></b>	

The system's investment policy permits it to invest up to 5% of total investments in foreign currency denominated investments. The system's current position is .14%.

### **Housing Commission** **(Not included in above Totals)**

#### **Deposits**

At year end, the carrying amount of the Housing Commission's deposits was \$603,913 and the bank balance was \$650,998 of which \$650,998 was covered by federal deposit insurance or collateralized by securities held by its agent in the Housing Commission's name. Deposits also include \$250 of petty cash.

Housing Commission investments consist of Certificates of deposit and are included under deposits above for risk assessment purposes.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

### B. Receivables

Receivables in the governmental activities consist of 59 percent due from other governments, 13 percent special assessments receivable, 1 percent taxes receivable, 5 percent interest receivable and 22 percent other receivables. Receivables in the business-type activities consist of 31 percent due from other governments, 64 percent due from customers and 5 percent of other receivables. Receivables in the component units consist of 46 percent due from other governments, 48 percent due from customers, 1 percent interest receivable, 3 percent note receivable, and 2 percent other receivables.

Accounts receivable in the Wastewater and Water enterprise Fund are net of allowances in the amounts of \$5,622 and \$1,963, respectively. Accounts receivable in the Light and Power and Housing Commission discrete component units are net of allowances in the amount of \$78,151 and \$689, respectively.

Special assessments receivable in the amount of approximately \$229,707 will not be collected within one year.

### C. Capital assets

Capital assets activity for the year ended June 30, 2007 was as follows:

#### Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated –				
Land	\$ 11,270,613	\$ 136,901	\$ -	\$ 11,407,514
Land improvements	1,570,247	38,056	-	1,608,303
Construction in progress	-	45,048	-	45,048
Total capital assets not being depreciated	<u>12,840,860</u>	<u>220,005</u>	<u>-</u>	<u>13,060,865</u>
Capital assets being depreciated				
Land improvements	1,409,623	35,131	-	1,444,754
Infrastructure	37,395,049	638,616	-	38,033,665
Buildings	15,268,957	228,108	-	15,497,065
Equipment	<u>11,778,052</u>	<u>1,433,062</u>	<u>780,783</u>	<u>12,430,331</u>
Total capital assets being depreciated	<u>65,851,681</u>	<u>2,334,917</u>	<u>780,783</u>	<u>67,405,815</u>

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for				
Land improvements	\$ 267,747	\$ 47,912	\$ -	\$ 315,659
Infrastructure	30,457,697	768,515	-	31,226,212
Buildings	5,778,810	535,925	-	6,314,735
Equipment	<u>6,344,104</u>	<u>856,895</u>	<u>655,593</u>	<u>6,545,406</u>
Total accumulated depreciation	<u>42,848,358</u>	<u>2,209,247</u>	<u>655,593</u>	<u>44,402,012</u>
Total capital assets being depreciated, net	<u>23,003,323</u>	<u>125,670</u>	<u>125,190</u>	<u>23,003,803</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 35,844,183</u></b>	<b><u>\$ 345,675</u></b>	<b><u>\$ 125,190</u></b>	<b><u>\$ 36,064,668</u></b>
<b>Business-type activities</b>				
Capital assets not being depreciated -				
Land	\$ 586,914	\$ -	\$ -	\$ 586,914
Land improvements	8,431,562	-	-	8,431,562
Construction in progress	<u>855,005</u>	<u>742,437</u>	<u>1,350,724</u>	<u>246,718</u>
Total capital assets not being depreciated	<u>9,873,481</u>	<u>742,437</u>	<u>1,350,724</u>	<u>9,265,194</u>
Capital assets being depreciated				
Buildings and improvements	33,576,408	960,856	-	34,537,264
Other improvements	12,113,472	103,306	-	12,216,778
Machinery and equipment	<u>10,057,533</u>	<u>401,336</u>	<u>-</u>	<u>10,458,869</u>
Total capital assets being depreciated	<u>55,747,413</u>	<u>1,465,498</u>	<u>-</u>	<u>57,212,911</u>
Less accumulated depreciation for				
Buildings and improvements	7,375,693	701,715	-	8,077,408
Other improvements	1,561,843	378,610	-	1,940,453
Machinery and equipment	<u>4,001,349</u>	<u>154,687</u>	<u>-</u>	<u>4,156,036</u>
Total accumulated depreciation	<u>12,938,885</u>	<u>1,235,012</u>	<u>-</u>	<u>14,173,897</u>
Total capital assets being depreciated, net	<u>42,808,528</u>	<u>230,486</u>	<u>-</u>	<u>43,039,014</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 52,682,009</u></b>	<b><u>\$ 972,923</u></b>	<b><u>\$ 1,350,724</u></b>	<b><u>\$ 52,304,208</u></b>

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Light and Power</b>				
<b>Component unit –</b>				
Capital assets not being depreciated				
Land	\$ 821,051	\$ -	\$ -	\$ 821,051
Construction in progress	<u>1,093,681</u>	<u>536,778</u>	<u>401,323</u>	<u>1,229,136</u>
Total capital assets not being depreciated	<u>1,914,732</u>	<u>536,778</u>	<u>401,323</u>	<u>2,050,187</u>
Capital assets being depreciated				
Buildings and improvements	3,700,780	284,650	-	3,985,430
Equipment and distribution system	<u>47,376,127</u>	<u>1,323,462</u>	<u>4,013,641</u>	<u>48,685,948</u>
Total capital assets being depreciated	<u>51,076,907</u>	<u>1,608,112</u>	<u>4,013,641</u>	<u>48,671,378</u>
Less accumulated depreciation for				
Buildings and improvements	388,756	115,169	-	503,925
Equipment and distribution system	<u>16,827,677</u>	<u>1,424,008</u>	<u>2,640,104</u>	<u>15,611,581</u>
Total accumulated depreciation	<u>17,216,433</u>	<u>1,539,177</u>	<u>2,640,104</u>	<u>16,115,506</u>
Total capital assets being depreciated, net	<u>33,860,474</u>	<u>68,935</u>	<u>1,373,537</u>	<u>32,555,872</u>
<b>Light and Power</b>				
<b>Component Unit</b>				
<b>Capital assets, net</b>	<u><b>\$ 35,775,206</b></u>	<u><b>\$ 605,713</b></u>	<u><b>\$ 1,774,860</b></u>	<u><b>\$ 34,606,059</b></u>
<b>Downtown Development</b>				
<b>Authority – Component unit -</b>				
Capital assets not being depreciated –				
Construction in progress	<u><b>\$ 126,502</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 126,502</b></u>	<u><b>\$ -</b></u>

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Housing Commission</b>				
Capital assets not being depreciated				
Land	\$ 297,665	\$ -	\$ -	\$ 297,665
Capital assets being depreciated				
Buildings	5,199,301	213,681	-	5,412,982
Machinery and equipment	312,133	34,096	21,030	325,199
Site improvements	<u>222,062</u>	<u>18,566</u>	<u>18,566</u>	<u>222,062</u>
Total capital assets being depreciated	<u>5,733,496</u>	<u>266,343</u>	<u>39,596</u>	<u>5,960,243</u>
Less accumulated depreciation	<u>3,734,438</u>	<u>216,098</u>	<u>12,111</u>	<u>3,938,425</u>
Total capital assets being depreciated, net	<u>1,999,058</u>	<u>50,245</u>	<u>27,485</u>	<u>2,021,818</u>
<b>Housing Commission Component Unit</b>				
Capital assets, net	<u><u>\$ 2,296,723</u></u>	<u><u>\$ 50,245</u></u>	<u><u>\$ 27,485</u></u>	<u><u>\$ 2,319,483</u></u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities</b>	
General government	\$ 60,773
Public safety	139,534
Public works, including depreciation of general infrastructure assets	778,021
Recreation and culture	435,596
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>795,323</u>
<b>Total depreciation expense – governmental activities</b>	<u><b>\$ 2,209,247</b></u>
<b>Business-type activities</b>	
Wastewater	\$ 589,146
Water	250,695
Marina	132,580
Auto parking	<u>262,591</u>
<b>Total depreciation expense – business-type activities</b>	<u><b>\$1,235,012</b></u>



# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

### Component unit activities

Light and power	\$1,539,177
Housing Commission	<u>216,098</u>

**Total depreciation expense - component unit activities** **\$1,755,275**

### D. Accounts payable and accrued expenses

Accounts payable and accrued expenses in the governmental activities consist of 63 percent vendor payables, 15 percent accrued salaries, 12 percent accrued interest and 10 percent customer deposits. Business-type activities accounts payable and accrued expenses consist of 51 percent vendor payables, 8 percent accrued salaries, 29 percent accrued interest and 12 percent customer deposits. Component unit accounts payable and accrued expenses consist of 89 percent vendor payables, 4 percent accrued salaries, 6 percent customer deposits, and 1 percent other liabilities.

### E. Interfund receivables, payables and transfers

	<u>Due from other funds</u>			
	General Fund	Water Fund	Non-Major Governmental Funds	Total
<b><u>Due to other funds</u></b>				
Local Streets Fund	\$ 30,758	\$ -	\$ -	\$ 30,758
Brown Bridge Trust Fund	46,845	-	-	46,845
Non-Major Governmental Funds	68,088	-	-	68,088
Wastewater Fund	-	1,678	2,045	3,723
Water Fund	42,051	-	145	42,196
Autoparking System Fund	<u>49,398</u>	<u>-</u>	<u>-</u>	<u>49,398</u>
<b>Total</b>	<b><u>\$ 237,140</u></b>	<b><u>\$ 1,678</u></b>	<b><u>\$ 2,190</u></b>	<b><u>\$ 241,008</u></b>

	<u>Advance to other funds</u>
	Non-Major Governmental Funds
<b><u>Advance from other funds</u></b>	
Non-Major Governmental Funds	\$ 300,000
Marina Fund	<u>850,000</u>
<b>Total</b>	<b><u>\$ 1,150,000</u></b>

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

	<b><u>Due from component unit</u></b>
	General Fund
<b><u>Due to primary government</u></b>	
Light and Power	\$ 243,700
Housing Commission	<u>16,866</u>
<b>Total</b>	<b><u>\$ 260,566</u></b>

	<b><u>Advance to primary government</u></b>
	Light and Power
<b><u>Advance from component unit</u></b>	
Marina	\$ 750,000
Non-major Governmental Funds	<u>71,516</u>
<b>Total</b>	<b><u>\$ 821,516</u></b>

Interfund receivables and payables are established to: (1) cover cash deficits, (2) to record a receivable for the year end transfer of interest revenue to the general fund, (3) to finance projects, and (4) to record payment in lieu of taxes owed to the general fund.

<b><u>Transfers in</u></b>	<b><u>Transfer Out</u></b>							<b><u>Total</u></b>
	General Fund	Major Streets Fund	Brown Bridge Trust Fund	Non-Major Governmental Funds	Waste- Water Fund	Water Fund	Auto Parking Fund	
General Fund	\$ -	\$ 63,948	\$ 432,219	\$ -	\$ 237,723	\$ 115,322	\$ 49,398	\$ 898,610
Major Streets Fund	412,797	-	-	-	-	-	-	412,797
Local Streets Fund	874,302	-	-	-	-	-	-	874,302
Public Improvement Fund	357,981	17,651	-	52,658	-	-	-	428,300
Non-Major Governmental Funds	-	-	-	171,234	-	-	-	171,234
Marina	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,067</u>
<b>Total</b>	<b><u>\$ 1,645,080</u></b>	<b><u>\$ 81,599</u></b>	<b><u>\$ 432,219</u></b>	<b><u>\$ 262,969</u></b>	<b><u>\$ 237,723</u></b>	<b><u>\$ 115,322</u></b>	<b><u>\$ 49,398</u></b>	<b><u>\$2,824,310</u></b>

Interfund transfers are: (1) to transfer interest revenue to the general fund, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) to transfer city fee mandated by the City Charter from the enterprise funds to the general fund.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

### F. Long-term debt and accrued compensated absences

The following is a summary of bond, note and contract debt transactions of the City for the year ended June 30, 2007:

	Primary Government			
	Governmental Activities General Obligation Bonds	Business- Type Activities Lease Payable	Business- Type Activities Revenue Bonds	Total Reporting Entity
Long-Term Debt at July 1, 2006	\$ 10,940,000	\$ 18,139,188	\$1,500,000	\$ 30,579,188
Additions	9,785,000	-	-	9,785,000
Reductions	<u>(9,984,767)</u>	<u>(978,422)</u>	<u>(175,000)</u>	<u>(10,638,422)</u>
<b>Long-Term Debt at June 30, 2007</b>	<b><u>\$ 10,740,233</u></b>	<b><u>\$ 17,160,745</u></b>	<b><u>\$1,325,000</u></b>	<b><u>\$ 29,725,746</u></b>
<b>Due Within One Year</b>	<b><u>\$ 170,000</u></b>	<b><u>\$ 953,814</u></b>	<b><u>\$ 200,000</u></b>	<b><u>\$ 1,323,814</u></b>

The following is a summary of accrued compensated absences of the City for the year ended June 30, 2007:

	Primary Government			
	Governmental Activities	Business- Type Activities	Component Units	Total Reporting Entity
Accrued compensated absences at July 1, 2006	\$ 730,942	\$ 53,832	\$ 455,175	\$1,239,949
Additions	6,059	6,846	25,375	38,280
Reductions	<u>-</u>	<u>-</u>	<u>50,938</u>	<u>50,938</u>
<b>Accrued compensated absences at June 30, 2007</b>	<b><u>\$ 737,001</u></b>	<b><u>\$ 60,678</u></b>	<b><u>\$ 429,612</u></b>	<b><u>\$1,227,291</u></b>
<b>Due Within One Year</b>	<b><u>\$ 36,638</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 36,638</u></b>

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

For the governmental activities, compensated absences are generally liquidated by the General Fund.

Long-term debt at June 30, 2007 is comprised of the following individual issues:

	<u>Final Maturity Date</u>	<u>Interest Rates</u>	<u>Outstanding Balance</u>
Primary Government			
General Long-Term Debt			
General obligation Downtown Development			
Series 2002A – Parking Deck	2028	4.65%	\$ 155,000
General obligation Downtown Development			
Series 2007A – Parking Deck - Refund	2028	4.00-4.125	9,785,000
Series 2007A deferred refunding			(499,767)
General obligation Downtown Development			
Series 2002B – Parking Deck	2017	4.50-6.50	1,300,000
Enterprise Funds			
1992 Water Revenue Bonds	2011	5.00-8.00	1,325,000
2003 Wastewater Treatment			
Capital Lease Payable	2015	2.30-3.75	1,365,980
1998 Wastewater Disposal			
Capital Lease Payable	2013	4.00-4.50	473,218
2002 Wastewater Treatment			
Capital Lease Payable	2022	2.75-5.00	<u>15,321,547</u>
<b>Total Reporting Entity</b>			<b><u>\$29,225,978</u></b>

The Wastewater Fund capital leases, which include the 2003 Waste Water Treatment, 1998 Wastewater Disposal, and 2002 Wastewater Treatment, are directly related to bonds issued through Grand Traverse County (the "County"). The City records its share of County bonds as capital leases payable in accordance with the Michigan Committee on Governmental Accounting and Auditing Statement 10, as amended.

Capital assets held under capital leases total approximately \$23,015,000 net of accumulated depreciation of \$21,403,000 at June 30, 2007.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

On February 22, 2007, the City issued \$9,785,000 in General Obligation Bonds with an average interest rate of 4.10% percent to advance refund \$9,315,000 of O/S 2002A series bond with an average rate of 5.07% percent. The net proceeds \$9,643,123 is after payment of \$141,877 in underwriting fees, insurance, and other issuance costs plus an additional \$183,833 of 2002 series sinking fund monies used to purchase US Treasury Notes. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the 2002A series bonds. As a result, the 2002A series bonds are considered to be defeased and the liability for those bonds have been removed from the government wide statements except for \$195,000 which was not refunded.

The City advance refunded the 2002A series bonds to reduce its total debt service payments over the next 21 years by almost \$596,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$717,334.

The annual requirements to pay principal and interest on long-term debt obligations are as follows:

<b>Fiscal Year</b>	<b><u>Governmental Activities General Obligation Bonds</u></b>		<b><u>Business-Type Capital Lease Payable</u></b>		<b><u>Business-Type Revenue Bond</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2008	\$ 170,000	\$ 534,820	\$ 953,814	\$ 736,134	\$ 200,000	\$ 79,500
2009	200,000	481,898	971,234	705,187	200,000	67,500
2010	200,000	471,184	1,033,234	671,659	225,000	55,500
2011	210,000	460,189	1,077,815	633,873	700,000	85,500
2012	245,000	449,031	1,134,938	592,851	-	-
2013-17	1,905,000	2,018,330	5,695,143	2,254,383	-	-
2018-22	3,250,000	1,440,655	6,294,567	951,853	-	-
2023-27	4,235,000	686,399	-	-	-	-
2028	825,000	34,031	-	-	-	-
	<b><u>\$ 11,240,000</u></b>	<b><u>\$ 6,576,537</u></b>	<b><u>\$ 17,160,745</u></b>	<b><u>\$ 6,545,940</u></b>	<b><u>\$ 1,325,000</u></b>	<b><u>\$ 288,000</u></b>

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### H. Commitments

#### Primary government - Property

During fiscal 2006, the City entered into an agreement with SNAFU LLC, which gives them the exclusive right and option to purchase Lot W in the amount of \$412,821 the first year of the agreement. The parties understand that the purchase price shall be paid partially in money and partially by transferring all or part of Lot 2. The value of this lot is \$319,936. After the first year of the option the price will increase by the consumer price index for all urban consumers. After the second year if the buyer exercises the right to purchase, new appraisals will have to be performed for both Lot W and Lot 2.

#### Component Units

##### **Downtown Development Authority**

The 2007 Downtown Development Authority Tax Exempt Refunding Bonds and the 2002B Downtown Development Authority Taxable Bonds are reported on the City of Traverse City financial statements. The Downtown Development Authority has pledged tax increment revenues for the payment of these bonds. The Downtown Development Authority provides these tax increment revenues to the City less the developer required contribution for bond payment. The City has pledge its limited tax full faith and credit for the payment of the principal and interest on the bonds. The following are the obligations expected to be paid from the collection of tax increment revenues in the Tax Increment Financing and Development Plan No. 97:

<b><u>Fiscal Year End</u></b>	<b><u>Amount</u></b>
2008	\$ 685,834
2009	662,913
2010	652,198
2011	651,203
2012	675,045
2013-2017	3,828,401
2018-2022	4,690,656
2023-2027	4,921,400
2028	<u>859,031</u>
<b>Total</b>	<b><u>\$ 17,626,681</u></b>

# **CITY OF TRAVERSE CITY, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **Light and Power**

In September 1994, the Light and Power department purchased \$840,000 of distribution facilities located within the City of Traverse City from Consumers Power Company ("Consumers"). The purchase was made in connection with the settlement of litigation initiated by the Light and Power department against Consumers. The purchase was completed under the auspices of the Michigan Public Service Commission and approved by the Light and Power department Board. The Light and Power department will take possession of these facilities in three stages, one stage remains to occur in September 2014.

On May 11, 2007, the Department entered into a letter of understanding with Wolverine Power Supply Cooperative, Inc. for construction of a transmission substation. The cost of this project shall not exceed \$6,600,000 (\$3,300,000 for each party). The letter of understanding is legally binding for 120 days. The letter has been replaced with a definitive agreement subsequent to fiscal year end.

## **IV. OTHER INFORMATION**

### **A. Risk management**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended June 30, 2007, the government carried insurance through various commercial carriers, including the Michigan Municipal League, to cover risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

### **B. Joint agreements**

Beginning June 1, 1978, the City entered into an agreement with the County of Grand Traverse for the joint ownership and operation of the Governmental Center. Under the terms of the agreement, the City owns 26.39% of the property and the County owns the remaining 73.61%. The City's share of the original building cost was \$935,000.

Under the terms of a separate agreement, the City reimburses the County of Grand Traverse for their pro rata share of operation and maintenance costs of the Governmental Center. The City's share of these costs for the year ended June 30, 2007 amounted to \$151,451, which is included in General Fund expenditures.

# **CITY OF TRAVERSE CITY, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **C. Property taxes**

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Grand Traverse County.

The 2006 taxable valuation of the City totaled \$669,068,128, on which ad valorem taxes levied consisted of 13.0918 mills for the City operating purposes.

Included in the taxable valuation is the Downtown Development Authority. The taxable value for the DDA is \$36,207,579. The Downtown Development general operating tax rate for fiscal year 2006-07 was 1.8038 mills. Property taxes are also derived from tax increment financing agreements between the DDA and other taxing districts. Under these arrangements, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Traverse City, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

### **D. Defined benefit pension plans**

The City has two retirement plans, one covering police and fire department personnel and the other covering all other employees of the City, and the Light and Power Component Unit employees.

#### **Police and Fire Department Employees' Retirement Fund (Act 345)**

##### **Basis of Accounting**

The Police and Fire Retirement System Financial Statements are included as a pension trust fund of the City of Traverse City and are prepared using the accrual basis of accounting. Employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the plan. Administrative costs are financed through investment earnings. The Plan does not issue a stand-alone financial report.

##### **Method Used To Value Investments**

Investments are reported at fair value. Short-term investments are valued at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.



# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### **Description of the Plan**

The City contributes to a single employer defined benefit retirement plan, the Police and Fire Retirement System, administered by the City and covering certain Police and Fire Department personnel established under Michigan Act No. 345 of the Public Acts of 1937, as amended. The Plan provides retirement, disability and death benefits to plan members and their beneficiaries. At June 30, 2006, the most recent actuarial valuation date, membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	53
Terminated plan members entitled to but not yet receiving benefits	2
Active plan members	<u>61</u>
<b>Total</b>	<b><u>116</u></b>

### **Contributions**

The City's obligation to contribute, benefit provisions and all other requirements of the system are established and amended by Michigan statute (P.A. 345). Employees of the Police and Fire Retirement System are not required to contribute to the system. All full service police and fire department employees are eligible to participate in the Police and Fire Retirement System. For the years ended June 30, 2005, 2006 and 2007, the City contributed 100% of the annual pension costs, which was also the actuarial determined contribution requirement, in the amounts of \$615,269, \$877,938, and \$987,602 respectively. There were no net pension obligations at the end of these years. At June 30, 2007, the funded ratio (actuarial value of assets as a percent of actuarial accrued liability) was 86% in comparison to 88% as of June 30, 2006.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### **Actuarial Methods and Assumptions**

Valuation date	June 30, 2006
Actuarial cost method	Entry-age actuarial cost method
Amortization method	Level percent
Remaining amortization period	20 years
Asset valuation method	4 years smoothed market
Actuarial Assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5-7.5%
Includes inflation at	3.75%
Cost of living adjustments:	2.5% of original pension for twenty years, payable to the police captains unit, pre- July 1, 1990 retirees, Police Sergeants (effective 8-1-98) and Police Patrol (effective 1-1-99) and Firefighters Unit (effective 7-1-00)

Additional required supplementary information regarding the police and fire pension plan is reported in the supplemental information portion of the financial statements.

### **Municipal Employees Retirement System (MERS)**

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917 or by calling (800) 767-6377.

### **Funding Policy**

The City is required to contribute at an actuarially determined rate; the current rate ranges from 14.44% to 20.67% of annual covered payroll depending on the class of employee. Employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

### Annual Pension Cost

For the year ended June 30, 2007 the City's annual pension cost of \$1,352,653 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the last actuarial valuation, was 29 years.

### Three-year Trend Information

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
6/30/05	\$1,013,415	100%	\$ -
6/30/06	1,226,873	100%	-
6/30/07	1,352,653	100%	-

### Schedule of Funding Progress

<b><u>Actuarial Valuation Date</u></b>	<b><u>Actuarial Value of Assets (a)</u></b>	<b><u>Actuarial Accrued Liability (AAL) Entry Age (b)</u></b>	<b><u>Unfunded AAL (UAAL) (b-a)</u></b>	<b><u>Funded Ratio (a/b)</u></b>	<b><u>Covered Payroll (c)</u></b>	<b><u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u></b>
12/31/04	\$ 34,215,650	\$ 44,008,390	\$ 9,792,740	78%	\$ 7,656,396	128%
12/31/05	35,574,162	45,667,466	10,093,304	78%	7,442,267	136%
12/31/06	37,648,129	47,608,085	9,959,956	79%	7,921,231	126%

### E. Defined contribution plan

#### **Primary government**

The City sponsors the "City of Traverse City Deferred Compensation Plan" created in accordance with the Internal Revenue Code Section 457. The City has two plans and the administrators of these plans are the ICMA Retirement Corporation and the Hartford Corporation. The plans are available to administrative, employees within the

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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general municipal employees union, and teamsters union. In addition, the plans are available to Light and Power component unit administrative and union employees. Participants may contribute from zero to six percent and the employer may contribute from two to six percent based on the employee's employment or labor union contract. Plan provision and contribution requirements can only be amended by authorization of the City Commission. In fiscal year 2007, 186 employees participated in the plans and the City contributed \$337,763 and employees contributed \$673,786.

### **Component unit**

#### **Downtown Development Authority**

The Downtown Development Authority sponsors the Traverse City Downtown Development Authority Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457. The administrator of the plan is ICMA Retirement Corporation. The plan is available to all employees. Participants may contribute any amount and the employer will match up to 7% percent based on the employee's employment contract. Plan provision and contribution requirements can only be amended by authorization of the Board of Directors. In fiscal year, 2007 and the Downtown Development Authority contributed \$15,074 and the employees contributed \$19,837 to this plan.

#### **Housing Commission**

The Traverse City Housing Commission participates in a Simplified Employee Pension Plan (SEP) and a Deferred Compensation Plan under section 457 of the Internal Revenue Code of 1986, as amended. The Housing Commission matched up to 3 percent of the employee wage for the 457 pension plan and paid another 4 percent of wages into the SEP for the fiscal year ended June 30, 2007.

#### **F. Postemployment health benefits**

In addition to the pension benefits described above, the City provides postretirement health insurance premiums and payments in accordance with their personnel policies and union agreements. The following describes each employee group and the post retirement health benefits they receive.

City non-union employees are eligible for postretirement health benefits at the time of retirement.

- The benefit includes health insurance premiums paid for three years for only the retiree.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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Teamsters municipal, clerical, and technical employees are eligible for postretirement health benefits at the time of retirement if they have ten years of services, qualified for a pension under MERS and are collecting a MERS pension.

- The benefit includes premium payments of \$225 per month.

Police sergeants, captains, and officers are eligible for postretirement benefits at the time of retirement if they have ten years of service with the City, qualify for a pension under ACT 345, and are collecting an ACT 345 pension.

- The benefit includes premium payments for the retiree and spouse at a base premium rate as of July 1, 1991 compounded five percent annually.

Firefighters are eligible for postretirement health benefits at the time they retire and have reached age fifty.

- The benefit includes for those who retire after July 1, 1990, \$210.90 per month for single coverage, \$442.90 per month for double person coverage, and \$495.61 per month for family coverage. For those employees who retired previous to July 1, 1994 they shall continue to receive the benefits as described in the applicable collective bargaining agreement in effect on the date of their retirement.

The Traverse City Light and Power administrative employees and utility workers are eligible for postretirement benefits at the time of retirement.

- The benefit includes payment of the retiree's premium until they reach the age of Medicare eligibility and at that time premiums for complementary coverage is paid.

The City paid approximately \$521,000 in post employment health insurance premiums and the employees contributed \$236,000. There was a total of 79 participants.

### **G. Entitlement commitment**

The Traverse City Light and Power Department, along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency ("MPPA"). The agency was formed to acquire interests in certain electric generating plants and related transmission lines. MPPA has acquired a 4.8% undivided interest in the Consumers Power Company Campbell 3 plant, an 18.61% undivided interest in the Detroit Edison Company Belle River project, and a 100% undivided interest in the Kalkaska Combustion Turbine Plant.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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In 1983, Traverse City Light and Power Department entered into a 35-year power supply and project support contract with MPPA. Under the agreement, Traverse City Light and Power Department will purchase 26.35% of the energy generated by MPPA's share of the Campbell 3 plant, and 4.53% of the energy generated by MPPA's share of the Belle River plant.

In 2002, Traverse City Light and Power Department entered into a 25 year agreement with MPPA to purchase 75.9% of the energy generated by MPPA's Kalkaska Combustion Turbine Plant.

For the year ended June 30, 2007, the Traverse City Light and Power Department recognized expenses totaling \$17,638,828 to purchase power under the terms of these contracts. The price of the power was calculated on a basis, as specified in the contract, to enable MPPA to recover its production, transmission and debt service costs

Under the terms of the contracts, Traverse City Light and Power Department must make annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3, Belle River, and Combustion Turbine projects (based on the percentage of power purchased). Future operating costs are estimated based on 2007 costs adjusted for inflation. These costs are estimated as follows:

<b><u>Year Ended December 31</u></b>	<b><u>Operating Costs</u></b>
2008	\$ 5,575,956
2009	5,743,235
2010	5,915,532
2011	6,092,998
2012	6,275,788
2013-2017	26,103,130
2018-2022	16,582,527
2023-2027	<u>13,638,668</u>
	<b><u>\$ 85,927,834</u></b>

The estimated annual debt payments (assuming no early calls or refinancing of existing revenue bonds) are as follows:

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 2,203,788	\$ 1,963,899	\$ 4,167,687
2009	2,313,742	1,851,640	4,165,382
2010	2,249,546	1,734,726	3,984,272
2011	2,360,782	1,631,011	3,991,793
2012	2,470,034	1,521,596	3,991,630
2013-2017	10,859,645	5,866,011	16,725,656
2018-2022	7,634,963	3,299,742	10,934,705
2023-2027	8,330,025	1,356,807	9,686,832
	<u>\$ 38,422,525</u>	<u>\$ 19,225,432</u>	<u>\$ 57,647,957</u>

### H. Related party transactions

#### Primary government

The City provides management services on behalf of the City of Traverse City and Charter Township of Garfield Recreation Authority (the "Authority"), a related party (by virtue of common board members and management). These services include maintaining financial records and reporting. In return for these services, the City received fees from the Authority in the amount of \$16,550 during the year ended June 30, 2007.

#### Component unit

The Downtown Development Authority receives banking services for all three of their funds from Fifth Third Bank. The banking services consist primarily of Business Money Market accounts. The Chairman of the Board of Directors is the regional president.

The Downtown Development Authority entered into an appraisal agreement subsequent to fiscal year end for three parcels of land located in Old Town. The land is expected to be used for future public parking. One of the properties being appraised is owned by a member of the Downtown Development Authority's Board of Directors. The Director has abstained himself from all discussion and votes relating to the appraisal agreement.

### I. Subsequent events

#### Clinch Park Zoo

The City has discontinued the Clinch Park Zoo operations as of June 30, 2007. The Clinch Park Zoo, located on the bay front began to dismantle some of the fencing and exhibits; however, the majority of the zoo assets will be dismantled subsequent to fiscal year end.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### J. Special item

#### Component unit

During the fiscal year ending June 30, 2007, the Department agreed to a litigation settlement regarding an outage that occurred on October 3, 2004. All claims were settled during the 2007 fiscal year and required a payment by the Department in the amount of \$47,463. In addition, the Department decommissioned their hydrodams during the year because the costs to comply with FERC regulations exceeded the benefit of operations. Because of the decommissioning, the assets have been determined to be impaired in accordance with GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries." In accordance with the statement, the capital assets were written down to their fair value, which was determined through a purchase bidding process. These two items have been recorded as a special items due to the items being under management's control and infrequent in nature.

### K. Designations of net assets

#### Primary government

The following are designations of unrestricted net assets established by management.

	<u>Auto Parking System Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Marina Fund</u>	<u>Garage Fund</u>
Emergencies	\$ 24,951	\$ 49,871	\$ 49,943	\$ -	\$ -
Capital expenditures	303,400	540,900	724,000	25,000	477,000
Future maintenance	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>\$528,351</u></b>	<b><u>\$590,771</u></b>	<b><u>\$773,943</u></b>	<b><u>\$ 25,000</u></b>	<b><u>\$477,000</u></b>

#### Component unit

The following are designations of unrestricted net assets established by Light and Power board.

Maintenance contingencies	\$ 2,867,337
Green energy	850,000
Emergencies	99,519
Environmental claims	3,442,507
Capital expansion	<u>6,020,000</u>
<b>Total</b>	<b><u>\$13,279,363</u></b>



# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### L. Prior period adjustments

#### Component units

##### **Light and Power**

Beginning net assets for the fiscal year end June 30, 2007 were properly increased in the amount of \$582,876 to reflect an accounts receivable due from MPPA for working capital paid by the Department in prior years.

##### **Housing Commission**

##### **Low Rent Program**

Transfer completed 2003 (50103 ) Capital Fund Assets to Low Rent	\$ 73,295
Transfer completed 2003 (50203) Bonus Capital Fund Assets to Low Rent	<u>20,975</u>

<b>Total</b>	<b><u>\$ 94,270</u></b>
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##### **Capital Fund Program**

Transfer completed 2003 (50103) Capital Fund Assets to Low Rent	\$ (73,295)
Transfer completed 2003 (50203) Bonus Capital Fund Assets to Low Rent	<u>(20,975)</u>

<b>Total</b>	<b><u>\$ (94,270)</u></b>
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### M. Contingent liability

#### Primary government – Boot Lake

In 2005 the City received a demand letter from the MDEQ demanding that the City undertake response activities under Parts 201, Section 118 at a site that was a City landfill from 1963 to 1967. The City and the MDEQ have reached an agreement with respect to the necessary investigatory actions that need to be taken at the site in order to determine what clean up, if any, is necessary at the site. If the investigation finds that expensive clean up at the site is necessary, and the City cannot find alternatives for sources of funding for clean up, the clean up could cost the City between \$1,000,000 and \$2,000,000. At this point, the City investigations have revealed that the site is not impacting Boardman Lake. The MDEQ has indicated some further investigation would be necessary should the site be redeveloped, but at this time, the MDEQ has not requested the City perform any active clean up.

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**CITY OF TRAVERSE CITY**  
**Required Supplementary Information**  
**ACT 345 Pension Trust Fund**  
**Schedule of Funding Progress**

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll ((b - a) / c)
6/30/97	\$ 15,520,629	\$ 15,077,046	\$ (443,583)	102.94%	\$ 2,212,378	0.00%
6/30/98	17,885,188	15,171,393	(2,713,795)	117.9%	2,259,312	0.00%
6/30/99	20,405,330	17,147,459	(3,257,871)	119.0%	2,337,289	0.00%
6/30/2000	22,497,159	18,756,152	(3,741,007)	119.9%	2,470,379	0.00%
6/30/2001	23,695,203	19,552,221	(4,142,982)	121.2%	2,467,235	0.00%
6/30/2002	23,592,627	20,540,751	(3,051,876)	114.9%	2,393,258	0.00%
6/30/2003	22,842,110	21,175,431	(1,666,679)	107.8%	2,402,524	0.00%
6/30/2004	22,038,257	22,711,298	673,041	97.0%	2,671,393	25.20%
6/30/2005	21,881,463	24,977,924	3,096,461	87.6%	3,139,509	98.63%
6/30/2006	22,591,340	26,163,253	3,571,913	86.3%	3,509,371	101.78%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year ended/valuation June 30	Annual Required Contribution	Percentage Contributed
1996 / 1995	\$ 469,685	100.00%
1997 / 1996	401,581	100
1998 / 1997	366,149	100
1999 / 1998	193,624	100
2000 / 1999	227,662	100
2001 / 2000	294,964	100
2002 / 2001	276,417	100
2003 / 2002	342,511	100
2004 / 2003	396,681	100
2005 / 2004	615,269	100
2006 / 2005	877,938	100
2007 / 2006	987,602	100

The above contributions are for pension benefits only and do not include amounts contributed for health care coverage.

The information in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues**  
**Budget (GAAP Basis) and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Property taxes</b>			
Real estate and personal property	\$ 8,000,000	\$ 7,981,564	\$ (18,436)
Collection fees	330,000	328,344	(1,656)
Penalties and interest on taxes	90,000	91,388	1,388
<b>Total property taxes</b>	<b>8,420,000</b>	<b>8,401,296</b>	<b>(18,704)</b>
<b>Licenses and permits</b>			
Business	187,900	194,817	6,917
Nonbusiness	12,750	15,168	2,418
<b>Total licenses and permits</b>	<b>200,650</b>	<b>209,985</b>	<b>9,335</b>
<b>Federal sources</b>	<b>37,000</b>	<b>37,441</b>	<b>441</b>
<b>State sources</b>			
State - shared revenues			
Sales and use tax	1,376,000	1,328,752	(47,248)
Liquor licenses	25,000	26,472	1,472
<b>Total state sources</b>	<b>1,401,000</b>	<b>1,355,224</b>	<b>(45,776)</b>
<b>Local sources</b>			
Payment in lieu of taxes	1,516,682	1,506,507	(10,175)
<b>Charges for services</b>			
General fees and services	45,300	49,232	3,932
Sale of assets	2,500	768	(1,732)
Use and admission fees	222,550	206,829	(15,721)
Fine and forfeitures - ordinance and cost	78,000	62,079	(15,921)
<b>Total charges for services</b>	<b>348,350</b>	<b>318,908</b>	<b>(29,442)</b>
<b>Fines and forfeits</b>			
Parking violations	81,000	61,726	(19,274)
<b>Reimbursements</b>	<b>475,000</b>	<b>666,199</b>	<b>191,199</b>
<b>Interest income</b>	<b>380,000</b>	<b>460,966</b>	<b>80,966</b>
<b>Other revenue</b>			
Rents and royalties	2,500	2,400	(100)
Contributions	334,900	329,689	(5,211)
Other	31,000	45,357	14,357
<b>Total other revenue</b>	<b>368,400</b>	<b>377,446</b>	<b>9,046</b>
<b>Total revenues</b>	<b>\$ 13,228,082</b>	<b>\$ 13,395,698</b>	<b>\$ 167,616</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Expenditures**  
**Budget (GAAP Basis) and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>General government</b>			
City Commission			
Personnel	\$ 33,950	\$ 33,367	\$ 583
Commodities	1,000	1,197	(197)
Contractual services	164,650	137,475	27,175
Other charges	10,650	9,616	1,034
Total City Commission	210,250	181,655	28,595
City Manager's Office			
Personnel	302,100	298,432	3,668
Commodities	6,000	3,466	2,534
Contractual services	88,000	93,991	(5,991)
Other charges	14,500	9,549	4,951
Total City Manager's Office	410,600	405,438	5,162
Human Resources			
Personnel	166,550	162,801	3,749
Commodities	2,250	1,438	812
Contractual services	22,900	19,010	3,890
Other charges	6,900	2,912	3,988
Total Human Resources	198,600	186,161	12,439
City Clerk's Office			
Personnel	283,100	279,940	3,160
Commodities	20,800	14,657	6,143
Contractual services	60,000	52,982	7,018
Other charges	31,400	32,527	(1,127)
Total City Clerk's Office	395,300	380,106	15,194
Assessor's Office			
Personnel	278,650	275,072	3,578
Commodities	11,800	10,682	1,118
Contractual services	20,800	14,926	5,874
Other charges	3,400	2,207	1,193
Total Assessor's Office	314,650	302,887	11,763
Treasurer's Office			
Personnel	326,550	318,343	8,207
Commodities	17,500	16,493	1,007
Contractual services	40,500	34,423	6,077
Other charges	11,100	8,610	2,490
Total Treasurer's Office	395,650	377,869	17,781
Building and grounds			
Other charges	168,000	152,091	15,909

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Expenditures**  
**Budget (GAAP Basis) and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
Planning/Zoning			
Personnel	\$ 228,800	\$ 228,027	\$ 773
Commodities	5,200	5,246	(46)
Contractual services	40,600	37,240	3,360
Other charges	8,900	10,633	(1,733)
Total planning/zoning	283,500	281,146	2,354
Cemetery			
Personnel	145,450	127,792	17,658
Commodities	10,800	6,220	4,580
Contractual services	166,300	153,777	12,523
Other charges	61,600	55,192	6,408
Total cemetery	384,150	342,981	41,169
Appropriations	166,000	163,791	2,209
Capital outlay	23,700	17,703	5,997
<b>Total general government</b>	<b>2,950,400</b>	<b>2,791,828</b>	<b>158,572</b>
<b>Public Safety</b>			
Police			
Personnel	2,977,000	2,968,073	8,927
Commodities	79,900	48,667	31,233
Contractual services	365,150	375,464	(10,314)
Other charges	348,200	331,560	16,640
Total Police	3,770,250	3,723,764	46,486
Fire			
Personnel	2,850,900	2,781,786	69,114
Commodities	56,800	57,404	(604)
Contractual services	116,100	102,897	13,203
Other charges	354,300	381,254	(26,954)
Total Fire	3,378,100	3,323,341	54,759
<b>Total public safety</b>	<b>7,148,350</b>	<b>7,047,105</b>	<b>101,245</b>

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Expenditures**  
**Budget (GAAP Basis) and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Public Works</b>			
Streets, alleys and sidewalks			
Personnel	\$ 378,050	\$ 207,294	\$ 170,756
Commodities	27,300	23,582	3,718
Contractual services	120,000	116,925	3,075
Other charges	(660,600)	(625,937)	(34,663)
	<u>(135,250)</u>	<u>(278,136)</u>	<u>142,886</u>
Total streets, alleys and sidewalks			
	(135,250)	(278,136)	142,886
 Public Works - Director			
Personnel	70,000	70,387	(387)
Commodities	150	144	6
Contractual services	3,350	1,606	1,744
Other charges	5,600	5,579	21
	<u>79,100</u>	<u>77,716</u>	<u>1,384</u>
Total Public Works - Director			
	79,100	77,716	1,384
 Street lighting - utilities	<u>181,000</u>	<u>178,982</u>	<u>2,018</u>
 Engineering			
Personnel	630,200	613,281	16,919
Commodities	14,000	17,992	(3,992)
Contractual services	57,200	38,272	18,928
Other charges	15,650	12,627	3,023
	<u>717,050</u>	<u>682,172</u>	<u>34,878</u>
Total engineering			
	717,050	682,172	34,878
 <b>Total public works</b>	<b><u>841,900</u></b>	<b><u>660,734</u></b>	<b><u>181,166</u></b>
 <b>Recreation and culture</b>			
Parks			
Personnel	955,700	924,326	31,374
Commodities	52,800	49,295	3,505
Contractual services	189,500	199,851	(10,351)
Other charges	408,650	394,010	14,640
	<u>1,606,650</u>	<u>1,567,482</u>	<u>39,168</u>
Total parks			
	1,606,650	1,567,482	39,168
 Zoo			
Personnel	214,500	168,919	45,581
Commodities	26,000	9,651	16,349
Contractual services	65,000	71,286	(6,286)
Other charges	77,900	50,957	26,943
	<u>383,400</u>	<u>300,813</u>	<u>82,587</u>
Total zoo			
	383,400	300,813	82,587
 <b>Total recreation and culture</b>	<b><u>1,990,050</u></b>	<b><u>1,868,295</u></b>	<b><u>121,755</u></b>
 <b>Total expenditures</b>	<b><u>\$ 12,930,700</u></b>	<b><u>\$ 12,367,962</u></b>	<b><u>\$ 562,738</u></b>

Concluded

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Transfers**  
**Budget (GAAP Basis) and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Transfers in</b>			
Brown Bridge Trust	\$ 425,000	\$ 432,219	\$ 7,219
Other funds	53,000	63,948	10,948
City fee	403,168	402,443	(725)
<b>Total transfers in</b>	<b><u>\$ 881,168</u></b>	<b><u>\$ 898,610</u></b>	<b><u>\$ 17,442</u></b>
<b>Transfers out</b>			
Motor Vehicle Highway	1,205,500	1,205,499	1
Public Improvement	272,000	272,000	-
Con Foster Museum	105,000	89,581	15,419
Capital Improvement Assessments	3,000	3,000	-
Senior Center	75,000	75,000	-
<b>Total transfers out</b>	<b><u>\$ 1,660,500</u></b>	<b><u>\$ 1,645,080</u></b>	<b><u>\$ 15,420</u></b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Public Improvement Capital Projects Fund**  
**For the Year Ended June 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Federal sources	\$ 39,300	\$ 263,473	\$ 224,173
State sources	614,300	251,650	(362,650)
Reimbursements	-	2,946	2,946
Contributions	365,500	320,011	(45,489)
Interest income	65,000	75,267	10,267
Other revenue	15,000	-	(15,000)
<b>Total revenues</b>	<u><b>1,099,100</b></u>	<u><b>913,347</b></u>	<u><b>(185,753)</b></u>
<b>Expenditures</b>			
General government			
Personnel	-	8,133	(8,133)
Capital outlay	2,150,400	1,308,001	842,399
<b>Total expenditures</b>	<u><b>2,150,400</b></u>	<u><b>1,316,134</b></u>	<u><b>834,266</b></u>
(Deficiency) excess of revenues over expenditures	(1,051,300)	(402,787)	648,513
<b>Other financing sources</b>			
Transfers in	578,300	428,300	(150,000)
<b>Net change in fund balance</b>	<u><b>(473,000)</b></u>	<u><b>25,513</b></u>	<u><b>498,513</b></u>
Fund balance, beginning of year	1,681,247	1,681,247	-
<b>Fund balance, end of year</b>	<u><u><b>\$ 1,208,247</b></u></u>	<u><u><b>\$ 1,706,760</b></u></u>	<u><u><b>\$ 498,513</b></u></u>



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2007**

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Capital Projects Funds</b>	<b>Permanent Cemetery Perpetual Care</b>	<b>Total Nonmajor Governmental Funds</b>
<b>ASSETS</b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 712,261	\$ 8,881	\$ 1,721,432	\$ 49,954	\$ 2,492,528
Investments	1,600,624	-	989,444	541,039	3,131,107
Receivables					
Accounts	55,114	-	-	-	55,114
Taxes	-	-	4,660	-	4,660
Special assessments	-	-	229,707	-	229,707
Accrued interest	3,633	-	-	-	3,633
Due from other governments	14,740	-	-	-	14,740
Due from other funds	2,190	-	-	-	2,190
Prepaid costs and other assets	327	-	-	-	327
Advances to other funds	1,150,000	-	-	-	1,150,000
<b>Total assets</b>	<b>\$ 3,538,889</b>	<b>\$ 8,881</b>	<b>\$ 2,945,243</b>	<b>\$ 590,993</b>	<b>\$ 7,084,006</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 25,690	\$ -	\$ -	\$ -	\$ 25,690
Accrued and other liabilities	38,983	-	-	-	38,983
Due to other funds	49,346	-	-	18,742	68,088
Advances from other funds	300,000	-	-	-	300,000
Advance from component unit	-	-	71,516	-	71,516
Deferred revenue	49,185	-	158,192	-	207,377
<b>Total liabilities</b>	<b>463,204</b>	<b>-</b>	<b>229,708</b>	<b>18,742</b>	<b>711,654</b>
<b>Fund balances</b>					
Reserved for					
Advances	1,150,000	-	-	-	1,150,000
Prepaid items	327	-	-	-	327
Endowments	-	-	-	572,251	572,251
Debt service	-	8,881	-	-	8,881
Capital projects	-	-	1,534,398	-	1,534,398
Recreation and culture	97,284	-	-	-	97,284
Unreserved					
Designated for subsequent years' expenditures	38,950	-	-	-	38,950
Designated for future capital projects	-	-	1,181,137	-	1,181,137
Undesignated	1,789,124	-	-	-	1,789,124
<b>Total fund balances</b>	<b>3,075,685</b>	<b>8,881</b>	<b>2,715,535</b>	<b>572,251</b>	<b>6,372,352</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,538,889</b>	<b>\$ 8,881</b>	<b>\$ 2,945,243</b>	<b>\$ 590,993</b>	<b>\$ 7,084,006</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Capital Projects Funds</b>	<b>Permanent Cemetery Perpetual Care</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues</b>					
Property taxes and special assessments	\$ -	\$ -	\$ 45,624	\$ -	\$ 45,624
Federal sources	93,465	-	-	-	93,465
State sources	7,390	-	-	-	7,390
Local sources	66,020	693,681	-	-	759,701
Charges for services	363,720	-	-	10,755	374,475
Contributions	129,101	-	-	-	129,101
Reimbursements	5,383	-	-	-	5,383
Interest income	148,949	-	144,229	27,689	320,867
Other revenue	22,576	-	-	-	22,576
<b>Total revenues</b>	<b>836,604</b>	<b>693,681</b>	<b>189,853</b>	<b>38,444</b>	<b>1,758,582</b>
<b>Expenditures</b>					
Current expenditures					
General government	213,553	-	-	-	213,553
Public safety	41,630	-	-	-	41,630
Culture and recreation	686,065	-	-	-	686,065
Community development	12,825	-	-	-	12,825
Capital outlay	116,266	-	52,382	-	168,648
Debt service					
Principal	-	170,000	-	-	170,000
Interest and fiscal charges	680	330,967	-	-	331,647
Payment to refunded escrow agent	-	183,833	-	-	183,833
Payment for bond issuance costs	-	66,364	-	-	66,364
Underwriters discount	-	88,065	-	-	88,065
Gross bond insurance premium	-	29,721	-	-	29,721
<b>Total expenditures</b>	<b>1,071,019</b>	<b>868,950</b>	<b>52,382</b>	<b>-</b>	<b>1,992,351</b>
(Deficiency) excess of revenues over expenditures	(234,415)	(175,269)	137,471	38,444	(233,769)
<b>Other financing sources (uses)</b>					
Transfers in	168,234	-	3,000	-	171,234
Transfers out	(87,927)	-	(156,300)	(18,742)	(262,969)
Proceeds of refunding bonds	-	9,785,000	-	-	9,785,000
Reoffering premium	-	42,273	-	-	42,273
Payment to refunded bond escrow agent	-	(9,643,123)	-	-	(9,643,123)
<b>Total other financing sources (uses)</b>	<b>80,307</b>	<b>184,150</b>	<b>(153,300)</b>	<b>(18,742)</b>	<b>92,415</b>
<b>Net change in fund balance</b>	<b>(154,108)</b>	<b>8,881</b>	<b>(15,829)</b>	<b>19,702</b>	<b>(141,354)</b>
Fund balances, beginning of year	3,229,793	-	2,731,364	552,549	6,513,706
<b>Fund balances, end of year</b>	<b>\$ 3,075,685</b>	<b>\$ 8,881</b>	<b>\$ 2,715,535</b>	<b>\$ 572,251</b>	<b>\$ 6,372,352</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2007**

	<b>Budget Stabilization Fund</b>	<b>Haz-Mat Fund</b>	<b>Police Training Fund</b>	<b>FETN Academy Fund</b>	<b>State Preparedness Equipment Grant Fund</b>
<b>ASSETS</b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 31,376	\$ 8,708	\$ -	\$ -	\$ 5
Investments	736,290	-	-	-	-
Receivables					
Accounts	-	-	-	2,826	-
Accrued interest	3,633	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	-	-
Prepaid costs and other assets	-	-	-	-	-
Advances to other funds	-	-	-	-	-
<b>Total assets</b>	<b>\$ 771,299</b>	<b>\$ 8,708</b>	<b>\$ -</b>	<b>\$ 2,826</b>	<b>\$ 5</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	-	-	-
Due to other funds	29,839	-	-	2,155	-
Advances from other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
<b>Total liabilities</b>	<b>29,839</b>	<b>-</b>	<b>-</b>	<b>2,155</b>	<b>-</b>
<b>Fund balance</b>					
Reserved for					
Advances	-	-	-	-	-
Prepaid items	-	-	-	-	-
Recreation and culture	-	-	-	-	-
Unreserved					
Designated for subsequent years' expenditures	-	-	-	50	-
Undesignated (deficit)	741,460	8,708	-	621	5
<b>Total fund balances</b>	<b>741,460</b>	<b>8,708</b>	<b>-</b>	<b>671</b>	<b>5</b>
<b>Total liabilities and fund balances</b>	<b>\$ 771,299</b>	<b>\$ 8,708</b>	<b>\$ -</b>	<b>\$ 2,826</b>	<b>\$ 5</b>

<u>Truancy and Interdiction Grant Fund</u>	<u>FEMA Grant Fund</u>	<u>College Parking Fund</u>	<u>Youth Alcohol Enforcement Grant Fund</u>	<u>Heritage Center Museum Fund</u>
\$ -	\$ -	\$ 9,101	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	14,631	-
-	-	-	-	2,190
-	-	-	-	-
-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,101</u>	<u>\$ 14,631</u>	<u>\$ 2,190</u>

\$ -	\$ -	\$ 4,345	\$ 4,224	\$ 2,190
-	-	-	-	-
-	-	4,755	10,407	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>9,100</u>	<u>14,631</u>	<u>2,190</u>

-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	1	-	-
<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,101</u>	<u>\$ 14,631</u>	<u>\$ 2,190</u>

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2007**

	<b>Cherry Capital Cable Fund</b>	<b>ACT 302 Competitive Grant Fund</b>	<b>Senior Citizens Fund</b>	<b>Homeland Security Training Grant Fund</b>	<b>Opera House Fund</b>
<b>ASSETS</b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 178,601	\$ -	\$ 184,748	\$ 82	\$ 78,804
Investments	-	-	-	-	-
Receivables					
Accounts	35,612	-	2,640	-	14,036
Accrued interest	-	-	-	-	-
Due from other governments	-	-	-	109	-
Due from other funds	-	-	-	-	-
Prepaid costs and other assets	-	-	327	-	-
Advances to other funds	-	-	-	-	-
<b>Total assets</b>	<b>\$ 214,213</b>	<b>\$ -</b>	<b>\$ 187,715</b>	<b>\$ 191</b>	<b>\$ 92,840</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ 4,537	\$ -	\$ 302
Accrued and other liabilities	-	-	37,383	-	1,600
Due to other funds	-	-	-	-	-
Advances from other funds	-	-	-	-	300,000
Deferred revenue	-	-	49,185	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>91,105</b>	<b>-</b>	<b>301,902</b>
<b>Fund balance</b>					
Reserved for					
Advances	-	-	-	-	-
Prepaid items	-	-	327	-	-
Recreation and culture	-	-	-	-	-
Unreserved					
Designated for subsequent years' expenditures	12,450	-	26,450	-	-
Undesignated (deficit)	201,763	-	69,833	191	(209,062)
<b>Total fund balances</b>	<b>214,213</b>	<b>-</b>	<b>96,610</b>	<b>191</b>	<b>(209,062)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 214,213</b>	<b>\$ -</b>	<b>\$ 187,715</b>	<b>\$ 191</b>	<b>\$ 92,840</b>

<b>Banner Program Fund</b>	<b>Industrial Development Fund</b>	<b>McCauley Estate Trust Fund</b>	<b>Robert Thompson Trust Fund</b>	<b>Total</b>
\$ 3,490	\$ 206,185	\$ 11,161	\$ -	\$ 712,261
-	776,021	88,313	-	1,600,624
-	-	-	-	55,114
-	-	-	-	3,633
-	-	-	-	14,740
-	-	-	-	2,190
-	-	-	-	327
-	1,150,000	-	-	1,150,000
<b>\$ 3,490</b>	<b>\$ 2,132,206</b>	<b>\$ 99,474</b>	<b>\$ -</b>	<b>\$ 3,538,889</b>

\$ -	\$ 10,092	\$ -	\$ -	\$ 25,690
-	-	-	-	38,983
-	-	2,190	-	49,346
-	-	-	-	300,000
-	-	-	-	49,185
<b>-</b>	<b>10,092</b>	<b>2,190</b>	<b>-</b>	<b>463,204</b>

-	1,150,000	-	-	1,150,000
-	-	-	-	327
-	-	97,284	-	97,284
-	-	-	-	38,950
3,490	972,114	-	-	1,789,124
<b>3,490</b>	<b>2,122,114</b>	<b>97,284</b>	<b>-</b>	<b>3,075,685</b>
<b>\$ 3,490</b>	<b>\$ 2,132,206</b>	<b>\$ 99,474</b>	<b>\$ -</b>	<b>\$ 3,538,889</b>

Concluded

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2007**

	<b>Budget Stabilization Fund</b>	<b>Haz-Mat Fund</b>	<b>Police Training Fund</b>	<b>FETN Academy Fund</b>	<b>State Preparedness Equipment Grant Fund</b>
<b>Revenues</b>					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ 72,860
State sources	-	-	7,390	-	-
Local sources	-	15,000	-	3,140	-
Charges for services	-	330	-	-	-
Contributions	-	-	-	-	-
Reimbursements	-	-	-	-	-
Interest income	36,275	-	-	-	-
Other revenue	-	-	-	-	-
<b>Total revenues</b>	<b>36,275</b>	<b>15,330</b>	<b>7,390</b>	<b>3,140</b>	<b>72,860</b>
<b>Expenditures</b>					
Current expenditures					
General government	-	-	-	-	-
Public safety	-	10,394	7,390	3,140	-
Culture and recreation	-	-	-	-	-
Community development	-	-	-	-	-
Capital outlay	-	-	-	-	72,860
Debt service					
Interest and fiscal charges	-	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>10,394</b>	<b>7,390</b>	<b>3,140</b>	<b>72,860</b>
Excess (deficiency) of revenues over expenditures	36,275	4,936	-	-	-
<b>Other financing sources (uses)</b>					
Transfers in	-	-	-	-	-
Transfers out	(29,839)	(12,000)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(29,839)</b>	<b>(12,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>6,436</b>	<b>(7,064)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balances, beginning of year	735,024	15,772	-	671	5
<b>Fund balances (deficit), end of year</b>	<b>\$ 741,460</b>	<b>\$ 8,708</b>	<b>\$ -</b>	<b>\$ 671</b>	<b>\$ 5</b>

<b>Truancy and Interdiction Grant Fund</b>	<b>FEMA Grant Fund</b>	<b>College Parking Fund</b>	<b>Youth Alcohol Enforcement Grant Fund</b>	<b>Heritage Center Museum Fund</b>
\$ -	\$ -	\$ -	\$ 20,605	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	34,435	-	-
-	-	-	-	-
-	-	-	101	-
-	-	-	-	-
-	-	-	-	-
<b>-</b>	<b>-</b>	<b>34,435</b>	<b>20,706</b>	<b>-</b>
-	-	34,434	-	-
-	-	-	20,706	-
-	-	-	-	93,234
-	-	-	-	-
-	2,495	-	-	-
-	-	-	-	-
<b>-</b>	<b>2,495</b>	<b>34,434</b>	<b>20,706</b>	<b>93,234</b>
-	(2,495)	1	-	(93,234)
-	-	-	-	93,234
(3,298)	-	-	-	-
<b>(3,298)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>93,234</b>
<b>(3,298)</b>	<b>(2,495)</b>	<b>1</b>	<b>-</b>	<b>-</b>
3,298	2,495	-	-	-
<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ -</b>

Continued.....



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2007**

	<b>Cherry Capital Cable Fund</b>	<b>ACT 302 Competitive Grant Fund</b>	<b>Senior Citizens Fund</b>	<b>Homeland Security Training Grant Fund</b>	<b>Opera House Fund</b>
<b>Revenues</b>					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-	-
Local sources	-	-	47,880	-	-
Charges for services	185,886	-	29,317	-	113,752
Contributions	73,527	-	55,574	-	-
Reimbursements	-	-	313	-	1,479
Interest income	9,210	-	6,571	-	2,231
Other revenue	-	-	22,498	-	78
<b>Total revenues</b>	<b>268,623</b>	<b>-</b>	<b>162,153</b>	<b>-</b>	<b>117,540</b>
<b>Expenditures</b>					
Current expenditures					
General government	179,119	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	245,350	-	347,481
Community development	-	-	-	-	-
Capital outlay	40,911	-	-	-	-
Debt service					
Interest and fiscal charges	-	-	-	-	680
<b>Total expenditures</b>	<b>220,030</b>	<b>-</b>	<b>245,350</b>	<b>-</b>	<b>348,161</b>
Excess (deficiency) of revenues over expenditures	48,593	-	(83,197)	-	(230,621)
<b>Other financing sources (uses)</b>					
Transfers in	-	-	75,000	-	-
Transfers out	-	(70)	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(70)</b>	<b>75,000</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>48,593</b>	<b>(70)</b>	<b>(8,197)</b>	<b>-</b>	<b>(230,621)</b>
Fund balances, beginning of year	165,620	70	104,807	191	21,559
<b>Fund balances (deficit), end of year</b>	<b>\$ 214,213</b>	<b>\$ -</b>	<b>\$ 96,610</b>	<b>\$ 191</b>	<b>\$ (209,062)</b>

<b>Banner Program Fund</b>	<b>Industrial Development Fund</b>	<b>McCauley Estate Trust Fund</b>	<b>Robert Thompson Trust Fund</b>	<b>Total</b>
\$ -	\$ -	\$ -	\$ -	\$ 93,465
-	-	-	-	7,390
-	-	-	-	66,020
-	-	-	-	363,720
-	-	-	-	129,101
3,490	-	-	-	5,383
-	89,293	5,369	-	148,949
-	-	-	-	22,576
<b>3,490</b>	<b>89,293</b>	<b>5,369</b>	<b>-</b>	<b>836,604</b>
-	-	-	-	213,553
-	-	-	-	41,630
-	-	-	-	686,065
-	12,825	-	-	12,825
-	-	-	-	116,266
-	-	-	-	680
-	<b>12,825</b>	-	-	<b>1,071,019</b>
3,490	76,468	5,369	-	(234,415)
-	-	-	-	168,234
-	-	(3,653)	(39,067)	(87,927)
-	-	<b>(3,653)</b>	<b>(39,067)</b>	<b>80,307</b>
<b>3,490</b>	<b>76,468</b>	<b>1,716</b>	<b>(39,067)</b>	<b>(154,108)</b>
-	2,045,646	95,568	39,067	3,229,793
<b>\$ 3,490</b>	<b>\$ 2,122,114</b>	<b>\$ 97,284</b>	<b>\$ -</b>	<b>\$ 3,075,685</b>

Concluded

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Budget Stabilization Special Revenue Fund**  
**For the Year Ended June 30, 2007**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenue</b>			
Interest income	\$ 31,000	\$ 36,275	\$ 5,275
<b>Other financing uses</b>			
Transfer out	<u>(31,000)</u>	<u>(29,839)</u>	<u>1,161</u>
<b>Net change in fund balance</b>	<b>-</b>	<b>6,436</b>	<b>6,436</b>
Fund balance, beginning of year	<u>735,024</u>	<u>735,024</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 735,024</u></u>	<u><u>\$ 741,460</u></u>	<u><u>\$ 6,436</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Haz-Mat Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Local sources	\$ 15,000	\$ 15,000	\$ -
Charges for service	<u>1,000</u>	<u>330</u>	<u>(670)</u>
<b>Total revenues</b>	<u><b>16,000</b></u>	<u><b>15,330</b></u>	<u><b>(670)</b></u>
<b>Expenditures</b>			
Public safety			
Personnel	2,600	2,655	(55)
Contractual services	4,500	3,924	576
Supplies	2,550	2,506	44
Other charges	<u>2,500</u>	<u>1,309</u>	<u>1,191</u>
<b>Total expenditures</b>	<u><b>12,150</b></u>	<u><b>10,394</b></u>	<u><b>1,756</b></u>
Net change in fund balance	3,850	4,936	1,086
<b>Other financing uses</b>			
Transfer out	<u>(12,000)</u>	<u>(12,000)</u>	<u>-</u>
<b>Net change in fund balance</b>	<u><b>(8,150)</b></u>	<u><b>(7,064)</b></u>	<u><b>1,086</b></u>
Fund balance, beginning of year	<u>15,772</u>	<u>15,772</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u><b>\$ 7,622</b></u></u>	<u><u><b>\$ 8,708</b></u></u>	<u><u><b>\$ 1,086</b></u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Police Training Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
State sources	\$ 8,000	\$ 7,390	\$ (610)
<b>Expenditures</b>			
Public safety			
Contractual services	<u>8,000</u>	<u>7,390</u>	<u>610</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**FETN Academy Special Revenue Fund**  
**For the Year Ended June 30, 2007**

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	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>			
Local sources	\$ 3,200	\$ 3,140	\$ (60)
<b>Expenditures</b>			
<b>Public safety</b>			
Supplies	50	-	50
Contractual services	3,200	3,140	60
<b>Total expenditures</b>	3,250	3,140	110
<b>Net change in fund balance</b>	<b>(50)</b>	<b>-</b>	<b>50</b>
Fund balance, beginning of year	671	671	-
<b>Fund balance, end of year</b>	<b>\$ 621</b>	<b>\$ 671</b>	<b>\$ 50</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**State Preparedness Equipment Grant Special Revenue Fund**  
**For the Year Ended June 30, 2007**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Federal sources	\$ 50,000	\$ 72,860	\$ 22,860
<b>Expenditures</b>			
Capital outlay	<u>50,000</u>	<u>72,860</u>	<u>(22,860)</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	<u>5</u>	<u>5</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 5</u></u>	<u><u>\$ 5</u></u>	<u><u>\$ -</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Truancy and Interdiction Grant Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Other financing uses</b>			
Transfers out	\$ -	\$ (3,298)	\$ (3,298)
<b>Net change in fund balance</b>	-	(3,298)	(3,298)
Fund balance, beginning of year	3,298	3,298	-
<b>Fund balance, end of year</b>	<u><u>\$ 3,298</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (3,298)</u></u>



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**FEMA Grant Special Revenue Fund**  
**For the Year Ended June 30, 2007**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Expenditures</b>			
Capital outlay	\$ 3,000	\$ 2,495	\$ 505
<b>Net change in fund balance</b>	<b>(3,000)</b>	<b>(2,495)</b>	<b>505</b>
Fund balance, beginning of year	<u>2,495</u>	<u>2,495</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ (505)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 505</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**College Parking Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>			
Charges for services	\$ 43,500	\$ 34,435	\$ (9,065)
<b>Expenditures</b>			
General government			
Personnel	6,300	4,223	2,077
Contractual services	33,000	26,879	6,121
Commodities	400	-	400
Other expense	3,800	3,332	468
<b>Total expenditures</b>	<b>43,500</b>	<b>34,434</b>	<b>9,066</b>
<b>Net change in fund balance</b>	<b>-</b>	<b>1</b>	<b>1</b>
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ 1</b>	<b>\$ 1</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Youth Alcohol Enforcement Grant Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>			
Federal sources	\$ 31,500	\$ 20,605	\$ (10,895)
Reimbursements	-	101	101
<b>Total revenues</b>	<b>31,500</b>	<b>20,706</b>	<b>(10,794)</b>
<b>Expenditures</b>			
Public safety			
Personnel	17,000	9,153	7,847
Contractual services	14,500	9,125	5,375
Other expense	-	2,428	(2,428)
<b>Total expenditures</b>	<b>31,500</b>	<b>20,706</b>	<b>10,794</b>
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Heritage Center Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Expenditures</b>			
Culture and recreation			
Contractual services	\$ 53,000	\$ 62,549	\$ (9,549)
Other expense	52,550	30,685	21,865
<b>Total expenditures</b>	<u>105,550</u>	<u>93,234</u>	<u>12,316</u>
<b>Other financing sources</b>			
Transfer in	108,300	93,234	(15,066)
<b>Net change in fund balance</b>	<b>(2,750)</b>	<b>-</b>	<b>2,750</b>
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<u><u>\$ (2,750)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,750</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Cherry Capital Cable Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>			
Charges for services	\$ 211,750	\$ 185,886	\$ (25,864)
Contributions	84,000	73,527	(10,473)
Interest income	2,000	9,210	7,210
<b>Total revenues</b>	<b>297,750</b>	<b>268,623</b>	<b>(29,127)</b>
<b>Expenditures</b>			
General government			
Contractual services	15,000	15,168	(168)
Commodities	700	1,323	(623)
Insurance	2,500	2,101	399
Other expense	192,000	160,527	31,473
Capital outlay	100,000	40,911	59,089
<b>Total expenditures</b>	<b>310,200</b>	<b>220,030</b>	<b>90,170</b>
<b>Net change in fund balance</b>	<b>(12,450)</b>	<b>48,593</b>	<b>61,043</b>
Fund balance, beginning of year	165,620	165,620	-
<b>Fund balance, end of year</b>	<b>\$ 153,170</b>	<b>\$ 214,213</b>	<b>\$ 61,043</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**ACT 302 Competitive Grant Special Revenue Fund**  
**For the Year Ended June 30, 2007**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Other financing uses</b>			
Transfer out	\$ -	\$ (70)	\$ (70)
<b>Net change in fund balance</b>	-	(70)	(70)
Fund balance, beginning of year	<u>70</u>	<u>70</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 70</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (70)</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Senior Citizens Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>			
Local sources	\$ 57,000	\$ 47,880	\$ (9,120)
Charges for services	22,000	29,317	7,317
Contributions	46,300	55,574	9,274
Reimbursements	-	313	313
Interest income	1,500	6,571	5,071
Other revenue	10,000	22,498	12,498
<b>Total revenues</b>	<b>136,800</b>	<b>162,153</b>	<b>25,353</b>
<b>Expenditures</b>			
Culture and recreation			
Personnel	161,300	152,197	9,103
Contractual services	58,550	55,740	2,810
Commodities	16,700	16,733	(33)
Other expense	22,700	20,680	2,020
Capital outlay	2,000	-	2,000
<b>Total expenditures</b>	<b>261,250</b>	<b>245,350</b>	<b>15,900</b>
(Deficiency) excess of revenues over expenditures	(124,450)	(83,197)	41,253
<b>Other financing sources</b>			
Transfer in	75,000	75,000	-
<b>Net change in fund balance</b>	<b>(49,450)</b>	<b>(8,197)</b>	<b>41,253</b>
Fund balance, beginning of year	104,807	104,807	-
<b>Fund balance, end of year</b>	<b>\$ 55,357</b>	<b>\$ 96,610</b>	<b>\$ 41,253</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Homeland Security Training Grant Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Federal sources	\$ 20,000	\$ -	\$ (20,000)
<b>Expenditures</b>			
Public safety			
Personnel	19,600	-	19,600
Contractual services	100	-	100
Other expense	300	-	300
<b>Total expenditures</b>	<u>20,000</u>	<u>-</u>	<u>20,000</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	<u>191</u>	<u>191</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 191</u></u>	<u><u>\$ 191</u></u>	<u><u>\$ -</u></u>



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Opera House Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>			
Charges for services	\$ 111,000	\$ 113,752	\$ 2,752
Reimbursements	-	1,479	1,479
Interest income	-	2,231	2,231
Other revenue	300,000	78	(299,922)
<b>Total revenues</b>	<b>411,000</b>	<b>117,540</b>	<b>(293,460)</b>
<b>Expenditures</b>			
Culture and recreation			
Contractual services	310,000	308,324	1,676
Supplies	100	-	100
Other expense	44,900	39,157	5,743
Debt service			
Interest and fiscal charges	-	680	(680)
<b>Total expenditures</b>	<b>355,000</b>	<b>348,161</b>	<b>6,839</b>
<b>Net change in fund balance</b>	<b>56,000</b>	<b>(230,621)</b>	<b>(286,621)</b>
Fund balance, beginning of year	21,559	21,559	-
<b>Fund balance (deficit), end of year</b>	<b>\$ 77,559</b>	<b>\$ (209,062)</b>	<b>\$ (286,621)</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Banner Program Special Revenue Fund**  
**For the Year Ended June 30, 2007**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Reimbursements	\$ 3,500	\$ 3,490	\$ (10)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 3,500</u></u>	<u><u>\$ 3,490</u></u>	<u><u>\$ (10)</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Industrial Development Special Revenue Fund**  
**For the Year Ended June 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Interest income	\$ 80,000	\$ 89,293	\$ 9,293
<b>Expenditures</b>			
Community development			
Personnel	-	127	(127)
Contractual services	20,000	11,727	8,273
Other expense	1,500	971	529
<b>Total expenditures</b>	<u>21,500</u>	<u>12,825</u>	<u>8,675</u>
<b>Net change in fund balance</b>	<b>58,500</b>	<b>76,468</b>	<b>17,968</b>
Fund balance, beginning of year	<u>2,045,646</u>	<u>2,045,646</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 2,104,146</u></u>	<u><u>\$ 2,122,114</u></u>	<u><u>\$ 17,968</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**McCauley Estate Trust Special Revenue Fund**  
**For the Year Ended June 30, 2007**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Interest income	\$ 3,300	\$ 5,369	\$ 2,069
<b>Other financing uses</b>			
Transfer out	<u>(3,300)</u>	<u>(3,653)</u>	<u>(353)</u>
<b>Net change in fund balance</b>	<b>-</b>	<b>1,716</b>	<b>1,716</b>
Fund balance, beginning of year	<u>95,568</u>	<u>95,568</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 95,568</u></u>	<u><u>\$ 97,284</u></u>	<u><u>\$ 1,716</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Robert Thompson Trust Special Revenue Fund**  
**For the Year Ended June 30, 2007**

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	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Other financing uses</b>			
Transfer out	\$ (39,500)	\$ (39,067)	\$ 433
<b>Net change in fund balance</b>	<b>(39,500)</b>	<b>(39,067)</b>	<b>433</b>
Fund balance, beginning of year	39,067	39,067	-
<b>Fund balance, end of year</b>	<b>\$ (433)</b>	<b>\$ -</b>	<b>\$ 433</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Debt Service Funds**  
**June 30, 2007**

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	<u>Recaptured Grant Revolving Loan</u>	<u>Parking Deck Bond Construction Taxable</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Assets</b>			
Cash and cash equivalents (agrees to fund balance)	<u>\$ 8,881</u>	<u>\$ -</u>	<u>\$ 8,881</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Debt Service Funds**  
**For the Year Ended June 30, 2007**

	<b>Parking Deck Bond Redemption Taxable</b>	<b>Parking Deck Bond Redemption Non-Taxable</b>	<b>Total</b>
<b>Revenues</b>			
Local sources	\$ 216,970	\$ 476,711	\$ 693,681
<b>Expenditures</b>			
Debt service			
Principal	130,000	40,000	170,000
Interest and fiscal charges	86,970	243,997	330,967
Payment to refunded escrow	-	183,833	183,833
Payment for bond issuance costs	-	66,364	66,364
Underwriters discount	-	88,065	88,065
Gross bond insurance premium	-	29,721	29,721
<b>Total expenditures</b>	<b>216,970</b>	<b>651,980</b>	<b>868,950</b>
(Deficiency) of revenues over expenditures	-	(175,269)	(175,269)
<b>Other financing sources (uses)</b>			
Proceeds of refunding bonds	-	9,785,000	9,785,000
Reoffering premium	-	42,273	42,273
Payment to refunded bond escrow agent	-	(9,643,123)	(9,643,123)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>184,150</b>	<b>184,150</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>8,881</b>	<b>8,881</b>
Fund balances, beginning of year	-	-	-
<b>Fund balances, end of year</b>	<b>\$ -</b>	<b>\$ 8,881</b>	<b>\$ 8,881</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Parking Deck Bond Redemption Taxable Debt Service Fund**  
**For the Year Ended June 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Local sources	\$ 217,000	\$ 216,970	\$ (30)
<b>Expenditures</b>			
Debt service			
Principal	130,000	130,000	-
Interest and fiscal charges	87,000	86,970	(30)
<b>Total expenditures</b>	<u>217,000</u>	<u>216,970</u>	<u>(30)</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Parking Deck Bond Redemption Non-Taxable Debt Service Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>			
Local sources	\$ 518,750	\$ 476,711	\$ (42,039)
<b>Expenditures</b>			
Debt service			
Principal	40,000	40,000	-
Interest and fiscal charges	478,750	243,997	(234,753)
Payment to refunded escrow	-	183,833	183,833
Payment for bond issuance costs	-	66,364	66,364
Underwriters discount	-	88,065	88,065
Gross bond insurance premium	-	29,721	29,721
<b>Total expenditures</b>	<b>518,750</b>	<b>651,980</b>	<b>133,230</b>
(Deficiency) of revenues over expenditures	-	(175,269)	(175,269)
<b>Other financing sources (uses)</b>			
Proceeds of refunding bonds	-	9,785,000	9,785,000
Reoffering premium	-	42,273	42,273
Payment to refunded bond escrow agent	-	(9,643,123)	(9,643,123)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>184,150</b>	<b>184,150</b>
<b>Net change in fund balance</b>	<b>-</b>	<b>8,881</b>	<b>8,881</b>
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ 8,881</b>	<b>\$ 8,881</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Capital Projects Funds**  
**June 30, 2007**

	<b>Recaptured Grant Revolving Loan</b>	<b>Parking Deck Bond Construction Taxable</b>	<b>Parking Bond Construction Non-taxable</b>
<b>ASSETS</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 158,927	\$ 62	\$ 37,295
Investments	-	102,664	882,189
Receivables			
Taxes	-	-	-
Special assessments	-	-	-
<b>Total assets</b>	<b>\$ 158,927</b>	<b>\$ 102,726</b>	<b>\$ 919,484</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Advance from component unit	\$ -	\$ -	\$ -
Deferred revenue	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances</b>			
Reserved for capital projects	158,927	102,726	919,484
Designated for capital projects	-	-	-
<b>Total fund balances</b>	<b>158,927</b>	<b>102,726</b>	<b>919,484</b>
<b>Total liabilities and fund balances</b>	<b>\$ 158,927</b>	<b>\$ 102,726</b>	<b>\$ 919,484</b>

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<b>Capital Improvement Assessments</b>	<b>Total</b>
\$ 1,525,148	\$ 1,721,432
4,591	989,444
4,660	4,660
229,707	229,707
<b>\$ 1,764,106</b>	<b>\$ 2,945,243</b>

\$ 71,516	\$ 71,516
158,192	158,192
<b>229,708</b>	<b>229,708</b>
-	1,181,137
1,534,398	1,534,398
1,534,398	2,715,535
<b>\$ 1,764,106</b>	<b>\$ 2,945,243</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Capital Projects Funds**  
**For the Year Ended June 30, 2007**

	<b>Recaptured Grant Revolving Loan</b>	<b>Parking Deck Bond Construction Taxable</b>	<b>Parking Deck Bond Construction Non-Taxable</b>
<b>Revenues</b>			
Special assessments	\$ -	\$ -	\$ -
Interest income	7,439	4,857	43,500
<b>Total revenues</b>	<b>7,439</b>	<b>4,857</b>	<b>43,500</b>
<b>Expenditures</b>			
Capital outlay	-	-	-
Excess of revenues over expenditures	7,439	4,857	43,500
<b>Other financing sources (uses)</b>			
Transfers in	-	-	-
Transfers out	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>7,439</b>	<b>4,857</b>	<b>43,500</b>
Fund balances, beginning of year	151,488	97,869	875,984
<b>Fund balances, end of year</b>	<b>\$ 158,927</b>	<b>\$ 102,726</b>	<b>\$ 919,484</b>

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<b>Capital Improvement Assessments</b>	<b>Total</b>
\$ 45,624	\$ 45,624
88,433	144,229
<b>134,057</b>	<b>189,853</b>
52,382	52,382
<b>81,675</b>	<b>137,471</b>
3,000	3,000
(156,300)	(156,300)
(153,300)	(153,300)
<b>(71,625)</b>	<b>(15,829)</b>
1,606,023	2,731,364
<b>\$ 1,534,398</b>	<b>\$ 2,715,535</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Recaptured Grant Revolving Loan Capital Projects Fund**  
**For the Year Ended June 30, 2007**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenue</b>			
Interest income	\$ 4,000	\$ 7,439	\$ 3,439
<b>Expenditures</b>			
Contractual services	<u>1,200</u>	<u>-</u>	<u>1,200</u>
<b>Net change in fund balance</b>	<b>2,800</b>	<b>7,439</b>	<b>4,639</b>
Fund balance, beginning of year	<u>151,488</u>	<u>151,488</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 154,288</u></u>	<u><u>\$ 158,927</u></u>	<u><u>\$ 4,639</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Parking Deck Bond Construction Taxable Capital Projects Fund**  
**For the Year Ended June 30, 2007**

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	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenue</b>			
Interest income	\$ 3,000	\$ 4,857	\$ 1,857
<b>Expenditures</b>			
Capital outlay	<u>100,000</u>	<u>-</u>	<u>100,000</u>
<b>Net change in fund balance</b>	<b>(97,000)</b>	<b>4,857</b>	<b>101,857</b>
Fund balance, beginning of year	<u>97,869</u>	<u>97,869</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 869</u></u>	<u><u>\$ 102,726</u></u>	<u><u>\$ 101,857</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Parking Deck Bond Construction Non-Taxable Capital Projects Fund**  
**For the Year Ended June 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Interest income	\$ 30,000	\$ 43,500	\$ 13,500
<b>Expenditures</b>			
Capital outlay	<u>900,000</u>	<u>-</u>	<u>900,000</u>
<b>Net change in fund balance</b>	<b>(870,000)</b>	<b>43,500</b>	<b>913,500</b>
Fund balance, beginning of year	<u>875,984</u>	<u>875,984</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><b>\$ 5,984</b></u>	<u><b>\$ 919,484</b></u>	<u><b>\$ 913,500</b></u>



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Capital Improvement Assessments Capital Projects Fund**  
**For the Year Ended June 30, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>			
Special assessments	\$ 108,500	\$ 45,624	\$ (62,876)
Interest income	50,000	88,433	38,433
<b>Total revenues</b>	<b>158,500</b>	<b>134,057</b>	<b>(24,443)</b>
<b>Expenditures</b>			
Capital outlay	175,500	52,382	123,118
<b>(Deficiency) excess of revenues over expenditures</b>	<b>(17,000)</b>	<b>81,675</b>	<b>98,675</b>
<b>Other financing sources (uses)</b>			
Transfers in	3,000	3,000	-
Transfers out	(156,300)	(156,300)	-
<b>Total other financing sources (uses)</b>	<b>(153,300)</b>	<b>(153,300)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(170,300)</b>	<b>(71,625)</b>	<b>98,675</b>
Fund balance, beginning of year	1,606,023	1,606,023	-
<b>Fund balance, end of year</b>	<b>\$ 1,435,723</b>	<b>\$ 1,534,398</b>	<b>\$ 98,675</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2007**

	<b>Retiree Health Insurance</b>	<b>Police &amp; Fire Retiree Health Insurance</b>	<b>Municipal Garage</b>	<b>Total</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 206,487	\$ 177,504	\$ 1,319,082	\$ 1,703,073
Investments	1,000,000	2,000,000	-	3,000,000
Receivables				
Accounts	-	-	6,500	6,500
Accrued interest	-	14,101	-	14,101
Inventories	-	-	128,416	128,416
Prepaid costs and other assets	-	-	3,768	3,768
Total current assets	1,206,487	2,191,605	1,457,766	4,855,858
Noncurrent assets				
Capital assets	-	-	6,118,170	6,118,170
<b>Total assets</b>	<b>1,206,487</b>	<b>2,191,605</b>	<b>7,575,936</b>	<b>10,974,028</b>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	-	-	227,343	227,343
Accrued and other liabilities	-	-	17,875	17,875
Total current liabilities	-	-	245,218	245,218
Noncurrent liabilities				
Compensated absences	-	-	33,073	33,073
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>278,291</b>	<b>278,291</b>
<b>Net assets</b>				
Invested in capital assets	-	-	6,118,170	6,118,170
Unreserved	1,206,487	2,191,605	1,179,475	4,577,567
<b>Total net assets</b>	<b>\$ 1,206,487</b>	<b>\$ 2,191,605</b>	<b>\$ 7,297,645</b>	<b>\$ 10,695,737</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2007**

	<b>Retiree Health Insurance</b>	<b>Police &amp; Fire Retiree Health Insurance</b>	<b>Municipal Garage</b>	<b>Total</b>
<b>Operating revenue</b>				
Interdepartmental	\$ 111,330	\$ 408,471	\$ 2,230,414	\$ 2,750,215
<b>Operating expenses</b>				
Personnel services	-	-	707,407	707,407
Commodities	-	-	602,845	602,845
Contractual services	-	-	87,876	87,876
Other charges	-	-	227,780	227,780
Benefit payments	67,301	-	-	67,301
Depreciation	-	-	795,323	795,323
<b>Total operating expenses</b>	<b>67,301</b>	<b>-</b>	<b>2,421,231</b>	<b>2,488,532</b>
Operating income (loss)	44,029	408,471	(190,817)	261,683
<b>Non-operating revenues</b>				
Other revenue	-	-	82,815	82,815
Interest income	58,925	102,891	53,097	214,913
Gain on sale of capital assets	-	-	147,946	147,946
<b>Total non-operating revenues</b>	<b>58,925</b>	<b>102,891</b>	<b>283,858</b>	<b>445,674</b>
<b>Change in net assets</b>	<b>102,954</b>	<b>511,362</b>	<b>93,041</b>	<b>707,357</b>
Net assets, beginning of year	1,103,533	1,680,243	7,204,604	9,988,380
<b>Net assets, end of year</b>	<b>\$ 1,206,487</b>	<b>\$ 2,191,605</b>	<b>\$ 7,297,645</b>	<b>\$ 10,695,737</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2007**

	<b>Retiree Health Insurance</b>	<b>Police &amp; Fire Retiree Health Insurance</b>	<b>Municipal Garage</b>	<b>Total</b>
<b>Cash flows from operating activities</b>				
Cash received from interfund services	\$ 111,330	\$ 408,471	\$ 2,231,094	\$ 2,750,895
Cash payments to suppliers for goods and services	-	-	(901,600)	(901,600)
Cash payments to employees for services	(67,301)	-	(704,697)	(771,998)
<b>Net cash provided by operating activities</b>	<b>44,029</b>	<b>408,471</b>	<b>624,797</b>	<b>1,077,297</b>
<b>Cash flows from non-capital financing activities</b>				
Other revenue	-	-	82,815	82,815
<b>Cash flows from capital and related financing activities</b>				
Purchases of capital assets	-	-	(1,316,099)	(1,316,099)
Proceeds from sale of capital assets	-	-	273,136	273,136
<b>Net cash (used in) capital and related financing activities</b>	<b>-</b>	<b>-</b>	<b>(1,042,963)</b>	<b>(1,042,963)</b>
<b>Cash flows from investing activities</b>				
Interest received	58,925	102,891	53,097	214,913
Sale of investments	(15,980)	-	-	(15,980)
Purchase of investments	-	(400,000)	-	(400,000)
<b>Net cash provided by (used in) investing activities</b>	<b>42,945</b>	<b>(297,109)</b>	<b>53,097</b>	<b>(201,067)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>86,974</b>	<b>111,362</b>	<b>(282,254)</b>	<b>(83,918)</b>
Cash and cash equivalents, beginning of year	119,513	66,142	1,601,336	1,786,991
<b>Cash and cash equivalents, end of year</b>	<b>\$ 206,487</b>	<b>\$ 177,504</b>	<b>\$ 1,319,082</b>	<b>\$ 1,703,073</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ 44,029	\$ 408,471	\$ (190,817)	\$ 261,683
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation	-	-	795,323	795,323
Changes in assets and liabilities				
Accounts receivables	-	-	680	680
Prepaid costs and other assets	-	-	(529)	(529)
Inventories	-	-	7,584	7,584
Accounts payable	-	-	9,846	9,846
Accrued and other liabilities	-	-	2,710	2,710
<b>Net cash provided by operating activities</b>	<b>\$ 44,029</b>	<b>\$ 408,471</b>	<b>\$ 624,797</b>	<b>\$ 1,077,297</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Agency Funds**  
**June 30, 2007**

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	<u>Senior Center</u>	<u>Tax Collection</u>	<u>Imprest Payroll</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 97,461	\$ 24,827	\$ 112,882	\$ 235,170
Account receivable	-	-	31,320	31,320
Taxes receivables	-	84,020	-	84,020
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b><u>\$ 97,461</u></b>	<b><u>\$ 108,847</u></b>	<b><u>\$ 144,202</u></b>	<b><u>\$ 350,510</u></b>
 <b>Liabilities</b>				
Accrued and other liabilities	\$ 97,461	\$ -	\$ 117,020	\$ 214,481
Due to other governmental units	-	108,847	27,182	136,029
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total liabilities</b>	<b><u>\$ 97,461</u></b>	<b><u>\$ 108,847</u></b>	<b><u>\$ 144,202</u></b>	<b><u>\$ 350,510</u></b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Changes in Assets and Liabilities**  
**All Agency Funds**  
**For the Year Ended June 30, 2007**

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
<b>SENIOR CENTER</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 75,075	\$ 22,386	\$ -	\$ 97,461
<b>Liabilities</b>				
Accrued and other liabilities	\$ 75,075	\$ 22,386	\$ -	\$ 97,461
<b>TAX COLLECTION</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 13,007	\$ 22,675,076	\$ 22,663,256	\$ 24,827
Taxes receivable	368,294	23,836,897	24,121,171	84,020
<b>Total assets</b>	<b>\$ 381,301</b>	<b>\$ 46,511,973</b>	<b>\$ 46,784,427</b>	<b>\$ 108,847</b>
<b>Liabilities</b>				
Due to other governmental units	\$ 381,301	\$ 46,675,214	\$ 46,947,668	\$ 108,847
<b>IMPREST PAYROLL</b>				
<b>Assets</b>				
Cash	\$ 91,684	\$ 11,257,986	\$ 11,236,788	\$ 112,882
Accounts receivable	99	528,873	497,652	31,320
<b>Total assets</b>	<b>\$ 91,783</b>	<b>\$ 11,786,859</b>	<b>\$ 11,734,440</b>	<b>\$ 144,202</b>
<b>Liabilities</b>				
Accrued and other liabilities	65,171	11,371,053	11,319,204	117,020
Due to other governmental units	26,612	27,182	26,612	27,182
<b>Total liabilities</b>	<b>\$ 91,783</b>	<b>\$ 11,398,235</b>	<b>\$ 11,345,816</b>	<b>\$ 144,202</b>
<b>TOTAL - ALL AGENCY FUNDS</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 179,766	\$ 33,955,448	\$ 33,900,044	\$ 235,170
Accounts receivable	99	528,873	497,652	31,320
Taxes receivable	368,294	23,836,897	24,121,171	84,020
<b>Total assets</b>	<b>\$ 548,159</b>	<b>\$ 58,321,218</b>	<b>\$ 58,518,867</b>	<b>\$ 350,510</b>
<b>Liabilities</b>				
Accrued and other liabilities	\$ 140,246	\$ 11,393,439	\$ 11,319,204	\$ 214,481
Due to other governmental units	407,913	46,702,396	46,974,280	136,029
<b>Total liabilities</b>	<b>\$ 548,159</b>	<b>\$ 58,095,835</b>	<b>\$ 58,293,484</b>	<b>\$ 350,510</b>



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

December 13, 2007

Honorable Mayor and  
Members of the City Commission  
City of Traverse City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Traverse City, Michigan (the "City") as of and for the year ended June 30, 2007, and have issued our report thereon dated December 13, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Traverse City Housing Commission discrete component unit, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated December 13, 2007.

This report is intended solely for the information and use of management, the City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vredoxeld Haefner LLC*



**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Governmental Revenues by Source**  
**General Fund**  
**Last ten fiscal years**

Fiscal years ending June 30,	Taxes	Licenses and permits	Federal sources	State Share Revenue	Other State sources	Charges for services	Fines and forfeitures	Reimbursements	Other revenues	Transfer in	Total revenues
1998	\$ 5,472,076	\$ 376,752	\$ -	\$ 1,685,962	\$ 18,631	\$ 348,403	\$ 77,221	\$ 179,543	\$ 1,441,022	\$ 505,704	\$ 10,105,314
1999	5,749,266	351,469	-	1,691,658	19,472	364,874	66,972	253,292	1,613,225	512,139	10,622,367
2000	6,031,092	187,962	-	1,826,991	20,206	378,360	72,244	244,973	1,634,569	498,140	10,894,537
2001	6,235,342	143,359	-	1,780,751	19,667	450,204	104,741	234,915	1,810,342	583,702	11,363,023
2002	6,545,558	170,298	-	1,650,255	19,732	387,573	81,269	234,686	1,613,030	401,831	11,104,232
2003	6,853,268	182,636	31,706	1,557,945	20,523	395,835	75,881	188,986	1,592,377	247,185	11,146,342
2004	6,964,990	197,834	37,243	1,400,207	22,224	451,519	78,822	294,302	1,894,848	267,596	11,609,585
2005	7,552,857	207,619	67,730	1,384,945	25,239	434,465	86,207	519,368	2,059,315	328,431	12,666,176
2006	7,970,675	208,837	38,584	1,369,536	24,869	471,701	75,311	575,182	2,452,553	392,092	13,579,340
2007	8,401,296	209,985	37,441	1,328,752	26,472	318,908	61,726	666,199	2,344,919	898,610	14,294,308

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Governmental Expenditures by Function**  
**General Fund**  
**Last ten fiscal years**

Fiscal years ending June 30,	General government	Public safety	Highways and street	Parks and recreation	Other	Transfer out	Total expenditures
1998	\$ 1,220,473	\$ 4,482,229	\$ 315,777	\$ 975,999	\$ 1,223,782	\$ 1,344,240	\$ 9,562,500
1999	1,307,921	4,519,806	27,640	1,037,238	1,468,123	1,931,131	10,291,859
2000	1,364,723	4,488,687	280,907	1,147,677	1,342,893	2,111,370	10,736,257
2001	1,434,684	4,725,452	348,424	1,200,482	1,488,486	1,733,387	10,930,915
2002	1,478,199	4,691,610	437,952	1,246,748	1,582,933	1,528,480	10,965,922
2003	1,535,166	4,937,169	361,728	1,344,120	1,701,434	1,396,721	11,276,338
2004	1,615,893	5,630,071	373,689	1,404,893	1,783,939	1,160,682	11,969,167
2005	1,772,334	6,253,646	363,012	1,424,539	1,918,853	972,237	12,704,621
2006	1,813,736	6,641,897	213,461	1,507,000	1,908,819	1,367,699	13,452,612
2007	1,986,207	7,047,105	(21,438)	1,567,482	1,788,606	1,645,080	14,013,042

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Debt Service Requirements to Maturity**

Fiscal years ending June 30,	Parking deck non-taxable refunding bond		Parking deck non-taxable		Parking deck taxable		Sewage disposal		Water plant		Primary government
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total principal and interest
2008	\$ -	\$ 447,912	\$ 40,000	\$ 7,208	\$ 130,000	\$ 79,700	\$ 953,814	\$ 736,134	\$ 200,000	\$ 79,500	\$ 2,674,268
2009	30,000	404,131	30,000	5,347	140,000	72,420	971,234	705,187	200,000	67,500	2,625,819
2010	30,000	402,931	30,000	3,953	140,000	64,300	1,033,234	671,659	225,000	55,500	2,656,577
2011	35,000	401,731	55,000	2,558	120,000	55,900	1,077,815	633,873	225,000	42,000	2,648,877
2012	125,000	400,331	-	-	120,000	48,700	1,134,938	592,851	225,000	28,500	2,675,320
2013	160,000	395,331	-	-	125,000	41,500	1,198,702	548,101	250,000	15,000	2,733,634
2014	205,000	388,931	-	-	125,000	33,750	1,148,121	499,750	-	-	2,400,552
2015	250,000	380,731	-	-	125,000	25,875	1,216,751	452,092	-	-	2,450,449
2016	295,000	370,731	-	-	135,000	17,875	1,044,326	400,456	-	-	2,263,388
2017	345,000	354,506	-	-	140,000	9,100	1,087,243	353,984	-	-	2,289,833
2018	540,000	335,531	-	-	-	-	1,144,467	304,514	-	-	2,324,512
2019	590,000	313,931	-	-	-	-	1,201,690	251,296	-	-	2,356,917
2020	645,000	290,331	-	-	-	-	1,258,913	194,216	-	-	2,388,460
2021	705,000	264,531	-	-	-	-	1,316,137	133,159	-	-	2,418,827
2022	770,000	236,331	-	-	-	-	1,373,360	68,668	-	-	2,448,359
2023	845,000	205,531	-	-	-	-	-	-	-	-	1,050,531
2024	860,000	171,731	-	-	-	-	-	-	-	-	1,031,731
2025	850,000	137,331	-	-	-	-	-	-	-	-	987,331
2026	845,000	103,331	-	-	-	-	-	-	-	-	948,331
2027	835,000	68,475	-	-	-	-	-	-	-	-	903,475
2028	825,000	34,031	-	-	-	-	-	-	-	-	859,031
Total	<u>\$ 9,785,000</u>	<u>\$ 6,108,356</u>	<u>\$ 155,000</u>	<u>\$ 19,065</u>	<u>\$ 1,300,000</u>	<u>\$ 449,120</u>	<u>\$ 17,160,745</u>	<u>\$ 6,545,940</u>	<u>\$ 1,325,000</u>	<u>\$ 288,000</u>	<u>\$ 43,136,226</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Revenue Bond Coverage**

	Gross revenue	Expenses	Net revenue available for debt services	Debt service requirements principal	Interest	Total	Coverage
1964 and 1992 Water Bonds (Serviced by Water Department)							
<u>Fiscal years ending June 30,</u>							
1995	\$ 1,641,861	\$ 1,631,327	\$ 10,534	\$ 105,000	\$ 177,050	\$ 282,050	3.73%
1996	1,678,746	1,475,181	203,565	105,000	175,650	280,650	0.73
1997	1,661,507	1,505,289	156,218	110,000	167,183	277,183	0.56
1998	1,938,966	1,512,270	426,696	125,000	79,691	204,691	2.08
1999	1,958,236	1,635,196	323,040	125,000	62,678	187,678	1.72
2000	1,949,146	1,622,419	326,727	125,000	144,851	269,851	1.21
2001	1,951,446	1,649,062	302,384	125,000	138,413	263,413	1.15
2002	2,210,939	1,741,640	469,299	125,000	131,788	256,788	1.83
2003	2,208,221	1,909,535	298,686	150,000	117,975	267,975	1.11
2004	2,078,220	1,946,220	132,000	150,000	109,350	259,350	0.51
2005	2,568,619	1,995,093	573,526	175,000	100,500	275,500	2.08
2006	2,201,009	2,044,727	156,282	175,000	90,000	265,000	0.59
2007	2,314,611	2,186,384	128,227	175,000	90,000	265,000	0.48

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Property Tax Millage Rates - All Overlapping Governments**  
**Last ten fiscal years**

<b>Fiscal years ending June 30,</b>	<b>City</b>	<b>County</b>	<b>School</b>	<b>ISD</b>	<b>College</b>	<b>State Education Tax</b>	<b>Library</b>	<b>BATA</b>	<b>Recreational Authority</b>	<b>TOTAL</b>
1997 - Homestead	13.7575	6.6432	3.6000	2.7932	2.4838	6.0000	1.4229	-	-	36.7006
1997 - Non-Homestead	13.7575	6.6432	21.4866	2.7932	2.4838	6.0000	1.4229	-	-	54.5872
1998 - Homestead	13.7575	6.5827	3.6000	2.7697	2.4612	6.0000	1.2410	0.1800	-	36.5921
1998 - Non-Homestead	13.7575	6.5827	20.9866	2.7697	2.4612	6.0000	1.2410	0.1800	-	53.9787
1999 - Homestead	13.7575	6.5991	3.1000	2.7344	2.4245	6.0000	1.3430	0.1774	-	36.1359
1999 - Non-Homestead	13.7575	6.5991	21.1000	2.7344	2.4245	6.0000	1.3430	0.1774	-	54.1359
2000 - Homestead	13.7575	6.4867	3.1000	3.0459	3.1832	6.0000	1.1760	0.1740	-	36.9233
2000 - Non-Homestead	13.7575	6.4867	21.1000	3.0459	3.1832	6.0000	1.1760	0.1740	-	54.9233
2001 - Homestead	13.6199	6.3932	3.1000	3.0302	3.1487	6.0000	1.2500	0.1713	-	36.7133
2001 - Non-Homestead	13.6199	6.3932	21.1000	3.0302	3.1487	6.0000	1.2500	0.1713	-	54.7133
2002 - Homestead	13.5447	6.3022	3.1000	3.0149	3.1152	6.0000	1.2691	0.1683	-	36.5144
2002 - Non-Homestead	13.5447	6.3022	21.1000	3.0149	3.1152	6.0000	1.2691	0.1683	-	54.5144
2003 - Homestead	13.3943	6.1772	3.1000	2.9929	3.0693	6.0000	1.2290	0.3500	-	36.3127
2003 - Non-Homestead	13.3943	6.1772	21.1000	2.9929	3.0693	6.0000	1.2290	0.3500	-	54.3127
2004 - Homestead	13.2295	6.0770	3.1000	2.9732	2.8324	6.0000	1.1957	0.3428	0.3700	36.1206
2004 - Non-Homestead	13.2295	6.0770	21.1000	2.9732	2.8324	6.0000	1.1957	0.3428	0.3700	54.1206
2005 - Homestead	13.2295	6.2495	3.1000	2.9589	2.9427	6.0000	1.1590	0.3380	0.3700	36.3476
2005 - Non-Homestead	13.2295	6.2495	21.1000	2.9589	2.9427	6.0000	1.1590	0.3380	0.3700	54.3476
2006 - Homestead	13.1765	6.1681	3.1000	2.9421	2.9138	6.0000	1.1029	0.3317	0.3594	36.0945
2006 - Non-Homestead	13.1765	6.1681	21.1000	2.9421	2.9138	6.0000	1.1029	0.3317	0.3594	54.0945

Notes:

The City's rate does not reflect a two mill levy the Downtown Development District established in 1979.

Millage rates above reflect operating and debt.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Property Tax Collection History**  
**Last ten fiscal years**

Levied July 1st	Tax Levy (1)		Collection to March 1, Year Following Levy	Percent Collected	Collections Plus Funding to June 30, 2006	% Collected Plus Funding June 30, 2006
1998	\$	5,614,561	\$ 5,177,694	9220.0%	\$ 5,614,561	10000.00%
1999		6,071,833	5,882,146	96.9	6,071,833	100.00
2000		6,388,413	6,038,108	94.5	6,388,413	100.00
2001		6,479,826	6,178,793	95.3	6,479,827	100.00
2002		6,816,556	6,482,462	95.1	6,816,556	100.00
2003		7,434,195	7,077,146	95.2	7,434,195	100.00
2004		7,244,443	6,953,163	96.0	7,244,443	100.00
2005		7,605,969	7,331,339	97.0	7,605,969	100.00
2006		8,314,144	7,973,180	95.9	8,314,144	100.00
2007		8,755,735	In process of collection			

(1) Real and personal taxes combined

# CITY OF TRAVERSE CITY, MICHIGAN

## Taxable Value by Use and Class

Last five years

<b>City</b>					
Use	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006	June 30, 2007
Commercial	\$ 205,995,982	\$ 215,373,317	\$ 226,228,370	\$ 239,594,691	\$ 263,673,053
Industrial	53,227,721	51,502,712	50,429,585	52,865,566	54,289,034
Residential	275,553,270	289,002,743	306,630,103	329,313,077	390,465,688
Utility	5,458,940	7,395,870	7,722,630	5,751,900	5,453,400
Total	<u>\$ 540,235,913</u>	<u>\$ 563,274,642</u>	<u>\$ 591,010,688</u>	<u>\$ 627,525,234</u>	<u>\$ 713,881,175</u>
<b>Class</b>					
Real Property	\$ 470,624,321	\$ 492,926,042	\$ 519,195,938	\$ 555,026,754	\$ 645,222,855
Personal Property	69,611,592	70,348,600	71,814,750	72,498,480	68,658,320
Total	<u>\$ 540,235,913</u>	<u>\$ 563,274,642</u>	<u>\$ 591,010,688</u>	<u>\$ 627,525,234</u>	<u>\$ 713,881,175</u>
<b>DDA</b>					
Use	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006	June 30, 2007
Commercial	\$ 61,562,225	\$ 66,453,167	\$ 70,565,266	\$ 75,170,443	\$ 86,238,118
Industrial	32,602	33,091	33,852	34,310	34,310
Residential	5,053,300	5,283,482	5,992,485	8,937,820	12,155,603
Utility	211,380	242,240	248,320	207,680	200,260
Total	<u>\$ 66,859,507</u>	<u>\$ 72,011,980</u>	<u>\$ 76,839,923</u>	<u>\$ 84,350,253</u>	<u>\$ 98,628,291</u>
<b>Class</b>					
Real Property	\$ 57,184,617	\$ 60,898,770	\$ 65,138,903	\$ 72,078,693	\$ 86,364,911
Personal Property	9,674,890	11,113,210	11,701,020	12,271,560	12,263,380
Total	<u>\$ 66,859,507</u>	<u>\$ 72,011,980</u>	<u>\$ 76,839,923</u>	<u>\$ 84,350,253</u>	<u>\$ 98,628,291</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Ten Largest Taxpayers**  
**June 30, 2007**

Taxpayer	Principal Product or Service	Taxable Value	Percent of Total (1)
TC Hotel LLC	Holiday Inn	\$ 5,369,300	14.68%
Tom's Food Market	Grocery store	4,672,960	12.77%
Harbour View Centre Condo	Mixed use condominium	4,547,323	12.43%
East Bay Plaza LLC	Commercial property	4,499,720	12.30%
Radio Centre of TC, Inc	Office	3,673,590	10.04%
USA Bayshore Properties	Bayshore resort	3,256,428	8.90%
Michigan Consolidated Gas	Utility	2,735,616	7.48%
Paulos Land Co	Management Company	2,727,922	7.46%
Charter Communications	Utility	2,592,417	7.09%
Bayview Professional Centre LLC	Office	2,508,870	6.87%

(1) Based on \$713,881,175 which is the City's Taxable Value for its fiscal year ended June 30, 2007.



**CITY OF TRAVERSE CITY, MICHIGAN**  
**Legal Debt Margin**  
**June 30, 2007**

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Debt limit (1)		\$90,351,144
Debt outstanding	68,148,270	
Less: Exempt debt (2)	<u>56,908,270</u>	<u>11,240,000</u>
Legal debt margin		<u><u>\$79,111,144</u></u>

(1) 10% of \$903,514,445 which is the City's SEV for the fiscal year ending June 30, 2007.

(2) Consists of revenue bonds.

**CITY OF TRAVERSE CITY**  
**Debt Statement**  
**June 30, 2007**

<b>City Direct Debt</b>	<u>Gross</u>	<u>Self Supporting</u>	<u>Net</u>
Share of Grand Traverse County Issued Bonds:			
Dated April 1, 2003 (LT)	\$ 1,365,980	\$ 1,365,980	\$ -
Dated October 1, 1998 (LT)	473,218	473,218	-
Dated 2002(LT)	15,321,547	15,321,547	-
Subtotal	<u>17,160,745</u>	<u>17,160,745</u>	<u>-</u>
Share of Michigan Public Power Agency			
Dated July 1, 1997	1,594,453	1,594,453	-
Dated December 1, 2001	23,695,980	23,695,980	-
Dated May 1, 2002	2,918,300	2,918,300	-
Dated December 2, 2002	10,213,792	10,213,792	-
Subtotal	<u>38,422,525</u>	<u>38,422,525</u>	<u>-</u>
Water Revenue Bonds			
Dated November 1, 1992	<u>1,325,000</u>	<u>1,325,000</u>	<u>-</u>
Downtown Development Bonds			
Dated February 22, 2007 (LT) (1)	9,785,000	9,785,000	-
Dated April 1, 2002 (Taxable)	1,300,000	1,300,000	-
Dated April 1, 2002 (Nontaxable)	155,000	155,000	-
Subtotal	<u>11,240,000</u>	<u>11,240,000</u>	<u>-</u>
Total	<u>\$ 68,148,270</u>	<u>\$ 68,148,270</u>	<u>\$ -</u>
<b>Overlapping Debt</b>	<u>Gross</u>	<u>City Share as Percent of Gross</u>	<u>Net</u>
Traverse City Public Schools	\$ 69,855,000	17.98%	\$ 12,559,929
Grand Traverse County	36,540,000	16.94%	6,189,876
Leelanau County	6,600,000	0.81%	53,460
Northwestern Michigan College	33,310,000	16.94%	5,642,714
Traverse City-Garfield Recreational Authority	6,465,000	45.38%	2,933,817
Traverse Area District Library	<u>5,865,000</u>	<u>17.28%</u>	<u>1,013,472</u>
Total	<u>\$ 158,635,000.00</u>		<u>\$ 28,393,268.00</u>



## *Vredeveld Haefner LLC*

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December 13, 2007

Honorable Mayor and  
Members of the City Commission  
City of Traverse City, Michigan

In planning and performing our audit of the financial statements of the City of Traverse City (the City), for the year ended June 30, 2007, we noted certain matters involving internal control and/or operations which we would like to bring to your attention. These matters were reviewed with management and we will review these matters during future audits.

### ACCOUNTING AND FINANCIAL REPORTING

During our audit we noted that the City was accounting for fund raising activities related to the senior center within an agency fund. Activities accounted for in agency funds should be restricted to only those instances when the City is holding assets on behalf of outside parties. We suggest the City account for fund raising and related activities in the City's governmental funds.

**Management response:** Management concurs with the recommendation and will reclassify the Senior Center Agency Fund to a Special Revenue Fund in the current fiscal year.

The City is currently in the process of accepting proposals for the sale of hydro electric production equipment related to facility decommissioning. Accounting standards require that these assets be considered impaired since they were no longer in use at the end of the fiscal year. As a result, the capital assets of the electric utility have been decreased by the net book value of the equipment offset by the estimated selling price. The net effect of the write down was approximately \$1,500,000.

**Management response:** Management calculated the write down of the asset impairment in accordance with Governmental Accounting Standards Board No. 42, "Accounting for Financial Reporting for Impairment of Capital Assets and Insurance Recoveries." The write down of the assets are recorded in the Light and Power Component Unit as a special item.

### POLICIES AND PROCEDURES

Statements on Auditing Standards Nos. 104 through 111, which will be effective for your 2008 audit, require additional documentation and review of internal control for all entities undergoing an audit. These new auditing requirements emphasize that having well documented policies for all of the City operations is important to ensuring appropriate internal control and consistent treatment of accounting transactions. We recommend the City document and periodically update the policies and procedures for all City activities. We further recommend the City Management and Commission review these policies and procedures periodically to ensure the City Management and Commission approves of the ways in which the City conducts its business.

**Management response:** Management started this process in March 2006. The utility billing, cash receipt, and payroll cycles and specific departments such as Senior Center, Marina, Parking Violations Bureau and Fire Inspection departments are completed. Management has a plan to document the remaining accounting cycles by June 2008.

#### NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board recently issued Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 which will become effective for the City for the 2008 fiscal year and will require additional disclosure, an evaluation of those employee benefits granted to retirees, and additional expenditure recognition in the government-wide financial statements. We have discussed this statement with City staff and they are working toward implementation of this new standard.

**Management response:** Management has engaged Gabriel Roeder Smith & Company to perform the postemployment benefits actuarial. Information has been submitted to the actuary and they are in the process of analyzing the data for preparation of the report.

This report is intended solely for the information and use of the City Commission and management of the City, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Vredewold Haefner LLC*